



Nquthu Local Municipality
Annual Financial Statements
for the year ended June 30, 2018

Nquthu Local Municipality

Annual Financial Statements for the year ended June 30, 2018

General Information

Nature of business and principal activities	Local Municipality
The following is included in the scope of operation	Rendering of basic services to the local community as per Chapter 7 of the Constitution of the Republic of South Africa
Executive Committee	Cllr. SM Kunene (Mayor) Cllr. NM Zungu (Deputy Mayor) Cllr. PP Ntombela Cllr. LS Hoffman Cllr. LC Moloi Cllr. MR Ngobese Cllr. ME Mnguni (Speaker)
Ordinary Councilors	Cllr. Z Sithole Cllr. RS Langa Cllr. EM Mkhwanazi Cllr. IL Shabalala Cllr. NM Buthelezi Cllr. MSK Gumbi Cllr. SM Buthelezi Cllr. SP Mathe Cllr. FA Hlatshwayo Cllr. JN Khoza Cllr. JZ Ndimba Cllr. SD Masimula (MPAC Chairperson) Cllr. AS Zulu Cllr. GF Molefe Cllr.. SMC Zikode Cllr. TJ Motloung Cllr. NS Mkhize Cllr. NG Mdlalose Cllr. BI Zwane Cllr. ET Nhlebela Cllr. CT Buthelezi Cllr. TA Dlamini Cllr. MN Khanye Cllr. TZ Buthelezi Cllr. CN Xulu Cllr. HM Shelembe
Accounting Officer	Mr. BP Gumbi
Chief Finance Officer (CFO)	Mr. WS Mpanza
Registered office	Municipal Building 83/11 Mdlalose Street Nquthu 3135
Business address	Municipal Building 83/11 Mdlalose Street Nquthu 3135

Nquthu Local Municipality

Annual Financial Statements for the year ended June 30, 2018

General Information

Postal address	Private Bag X 5521 Nquthu 3135
Bankers	ABSA South Africa
Auditors	Auditor General
Attorneys	BMM Inc.

Nquthu Local Municipality

Annual Financial Statements for the year ended June 30, 2018

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The reports and statements set out below comprise the annual financial statements presented to the Nquthu Local Municipality Council.:

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DBSA	Development Bank of South Africa
GRAP	Generally Recognised Accounting Practice
MFMA	Municipal Finance Management Act
MIG	Municipal Infrastructure Grant (Previously CMIP)

Accounting Officer's Responsibilities and Approval

The accounting officer is required by the Municipal Finance Management Act (Act 56 of 2003), to maintain adequate accounting records and is responsible for the content and integrity of the annual financial statements and related financial information included in this report. It is the responsibility of the accounting officer to ensure that the annual financial statements fairly present the state of affairs for the period then ended. The external auditors are engaged to express an independent opinion on the financial statements of the municipality as at the end of the financial year and the results of its operations and cash flow dependent opinion on the annual financial statements and were given unrestricted access to all financial records and related data.

The annual financial statements have been prepared in accordance with Standards of Generally Recognised Accounting Practice (GRAP) including any interpretations, guidelines and directives issued by the Accounting Standards Board.

The annual financial statements are based upon appropriate accounting policies consistently applied and supported by reasonable and prudent judgements and estimates.

The accounting officer acknowledges that he is ultimately responsible for the system of internal financial control established by the municipality and place considerable importance on maintaining a strong control environment. To enable the accounting officer to meet these responsibilities, the Risk Committee sets standards for internal control aimed at reducing the risk of error or loss in a cost effective manner. The standards include the proper delegation of responsibilities within a clearly defined framework, effective accounting procedures and adequate segregation of duties to ensure an acceptable level of risk. These controls are monitored throughout the municipality and all employees are required to maintain the highest ethical standards in ensuring the municipality's business is conducted in a manner that in all reasonable circumstances is above reproach. The focus of risk management in the municipality is on identifying, assessing, managing and monitoring all known forms of risk across the municipality. While operating risk cannot be fully eliminated, the municipality endeavours to minimise it by ensuring that appropriate infrastructure, controls, systems and ethical behaviour are applied and managed within predetermined procedures and constraints.

The accounting officer is of the opinion, based on the information and explanations given by management, that the system of internal control provides reasonable assurance that the financial records may be relied on for the preparation of the annual financial statements. However, any system of internal financial control can provide only reasonable, and not absolute, assurance against material misstatement or deficit.

The accounting officer has reviewed the municipality's cash flow forecast for the year to June 30, 2019 and, in the light of this review and the current financial position, he is satisfied that the municipality has or has access to adequate resources to continue in operational existence for the foreseeable future.

Although accounting officer is primarily responsible for the financial affairs of the municipality, he is supported by the municipality's internal auditors.

The external auditors are responsible for independently auditing and reporting on the municipality's annual financial statements. The annual financial statements have been examined by the municipality's external auditors and their report is presented on page 5.

The annual financial statements set out on pages 5 to 58, which have been prepared on the going concern basis, were approved by the full Municipal Council on 31 August 2018 and were signed on its behalf by:

Accounting Officer
Designation

Nquthu Local Municipality

Annual Financial Statements for the year ended June 30, 2018

Statement of Financial Position as at June 30, 2018

Figures in Rand	Note(s)	2018	2017
Assets			
Current Assets			
Inventories	9	1,126,367	1,079,883
Receivables from exchange transactions	10	4,168,217	11,895,431
Receivables from non-exchange transactions	11	27,070,972	25,417,517
VAT receivable	12	4,084,624	1,930,774
Prepayments		688,266	-
Cash and cash equivalents	13	231,170,485	168,059,336
		268,308,931	208,382,941
Non-Current Assets			
Investment property	4	815,707	884,356
Property, plant and equipment	5	311,743,721	293,775,944
Intangible assets	6	154,876	229,338
Heritage assets	7	78,888	78,888
		312,793,192	294,968,526
Non-Current Assets		312,793,192	294,968,526
Current Assets		268,308,931	208,382,941
Total Assets		581,102,123	503,351,467
Liabilities			
Current Liabilities			
Payables from exchange transactions	17	18,572,356	7,261,368
Consumer deposits	18	503,589	523,102
Unspent conditional grants and receipts	15	4,916,138	1,215,702
Provisions	16	6,620,544	4,324,489
Employee benefit obligation -current portion		112,188	49,154
		30,724,815	13,373,815
Non-Current Liabilities			
Employee benefit obligation	8	1,832,771	1,521,684
Non-Current Liabilities		1,832,771	1,521,684
Current Liabilities		30,724,815	13,373,815
Total Liabilities		32,557,586	14,895,499
Assets		581,102,123	503,351,467
Liabilities		(32,557,586)	(14,895,499)
Net Assets		548,544,537	488,455,968
Reserves			
Housing Developmet Fund	14	112,725	106,440
Accumulated surplus		548,431,810	488,349,528
Total Net Assets		548,544,535	488,455,968

Nquthu Local Municipality

Annual Financial Statements for the year ended June 30, 2018

Statement of Financial Performance

Figures in Rand	Note(s)	2018	2017
Revenue			
Revenue from exchange transactions			
Service charges	20	12,747,470	14,763,782
Rental of facilities and equipment		501,745	523,454
Interest received (trading)		597,266	840,839
Licences and permits		859,238	788,998
Miscellaneous other revenue		1,169,877	2,069,590
Commissions received		115,534	120,352
Interest received - investment	22	16,916,977	12,813,407
Total revenue from exchange transactions		32,908,107	31,920,422
Revenue from non-exchange transactions			
Taxation revenue			
Property rates	23	18,181,392	18,788,771
Property rates - penalties imposed	23	1,389,933	1,321,378
Transfer revenue			
Government grants & subsidies	24	154,605,199	146,116,986
Fines, Penalties and Forfeits		708,263	612,316
Total revenue from non-exchange transactions		174,884,787	166,839,451
		32,908,107	31,920,422
		174,884,787	166,839,451
Total revenue	19	207,792,894	198,759,873
Expenditure			
Employee Costs	25	(48,726,856)	(39,240,202)
Remuneration of councillors	26	(10,885,290)	(6,574,391)
Depreciation and amortisation	27	(18,228,900)	(16,066,603)
Impairment loss/ Reversal of impairments	28	2,368	(25,512)
Finance costs	29	-	(3,594)
Lease rentals on operating lease		(196,610)	(149,155)
Debt Impairment	30	(2,355,110)	(996,659)
Bulk purchases	31	(17,550,876)	(17,152,275)
Contracted services	32	(4,839,576)	(3,205,395)
Loss on disposal of assets and liabilities		(138,545)	(329,989)
General Expenses	33	(38,223,287)	(32,340,098)
Total expenditure		(141,142,682)	(116,083,873)
		-	-
Total revenue		207,792,894	198,759,873
Total expenditure		(141,142,682)	(116,083,873)
Operating surplus/deficit		-	-
Surplus before taxation		66,650,212	82,676,000
Taxation		-	-
Surplus for the year		66,650,212	82,676,000

Nquthu Local Municipality

Annual Financial Statements for the year ended June 30, 2018

Statement of Changes in Net Assets

	Housing Development Fund	Accumulated surplus	Total net assets
Figures in Rand			
Balance at July 1, 2016	100,206	405,645,000	405,745,206
Changes in net assets			
Surplus for the year	6,234	82,676,000	82,682,234
Prior year adjustment	-	28,528	28,528
Total changes	6,234	82,704,528	82,710,762
Balance at July 1, 2017	106,440	488,349,527	488,455,967
Changes in net assets			
Surplus for the year	6,285	66,650,212	66,656,497
Prior year adjustment	-	(6,567,929)	(6,567,929)
Total changes	6,285	60,082,283	60,088,568
Balance at June 30, 2018	112,725	548,431,810	548,544,535
Note(s)	14&41		

Nquthu Local Municipality

Annual Financial Statements for the year ended June 30, 2018

Cash Flow Statement

Figures in Rand	Note(s)	2018	2017
Cash flows from operating activities			
Receipts			
Sale of goods and services		15,393,864	14,763,782
Grants		155,313,462	146,116,986
Interest income		16,916,977	12,813,407
Other receipts		28,033,990	25,050,437
		<u>215,658,293</u>	<u>198,744,612</u>
Payments			
Employee costs		(59,487,427)	(45,814,592)
Suppliers		(56,864,170)	(53,961,026)
Finance costs		-	(3,594)
		<u>(116,351,597)</u>	<u>(99,779,212)</u>
Total receipts		215,658,293	198,744,612
Total payments		(116,351,597)	(99,779,212)
Net cash flows from operating activities	36	99,306,696	98,965,400
Cash flows from investing activities			
Purchase of property, plant and equipment	5	(36,046,102)	(49,531,892)
Proceeds from sale of property, plant and equipment	5	(8,172)	(3)
Net cash flows from investing activities		(36,054,274)	(49,531,895)
Cash flows from financing activities			
Movement in loan - long-term loan		-	(125,643)
Net increase in cash and cash equivalents		63,252,422	49,307,862
Cash and cash equivalents at the beginning of the year		168,059,336	118,751,478
Cash and cash equivalents at the end of the year	13	231,311,758	168,059,340

Nquthu Local Municipality

Annual Financial Statements for the year ended June 30, 2018

Statement of Comparison of Budget and Actual Amounts

Budget on Accrual Basis

	Approved budget	Adjustments	Final Budget	Actual amounts on comparable basis	Difference between final budget and actual	Reference
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Figures in Rand

Statement of Financial Performance

Revenue

Revenue from exchange transactions

Service charges	18,698,100	-	18,698,100	12,747,470	(5,950,630)	50
Rental of facilities and equipment	359,666	-	359,666	501,745	142,079	50
Interest received (trading)	633,683	-	633,683	597,266	(36,417)	
Licences and permits	350,000	-	350,000	859,238	509,238	50
Miscellaneous other revenue	921,783	-	921,783	1,169,877	248,094	50
Commissions received	123,899	-	123,899	115,534	(8,365)	50
Interest received - investment	11,000,000	-	11,000,000	16,916,977	5,916,977	50
Total revenue from exchange transactions	32,087,131	-	32,087,131	32,908,107	820,976	

Revenue from non-exchange transactions

Taxation revenue

Property rates	20,384,764	-	20,384,764	18,181,392	(2,203,372)	50
Property rates - penalties imposed	109,535	-	109,535	1,389,933	1,280,398	50

Transfer revenue

Government grants & subsidies	187,494,000	-	187,494,000	154,605,199	(32,888,801)	50
Fines, Penalties and Forfeits	1,600,000	-	1,600,000	708,263	(891,737)	50

Total revenue from non-exchange transactions	209,588,299	-	209,588,299	174,884,787	(34,703,512)	
'Total revenue from exchange transactions'	32,087,131	-	32,087,131	32,908,107	820,976	
'Total revenue from non-exchange transactions'	209,588,299	-	209,588,299	174,884,787	(34,703,512)	
Total revenue	241,675,430	-	241,675,430	207,792,894	(33,882,536)	

Expenditure

Personnel	(64,725,668)	-	(64,725,668)	(48,726,856)	15,998,812	
Remuneration of councillors	(10,831,654)	-	(10,831,654)	(10,885,290)	(53,636)	
Depreciation and amortisation	(11,793,663)	-	(11,793,663)	(18,228,900)	(6,435,237)	
Impairment loss/ Reversal of impairments	-	-	-	2,368	2,368	
Lease rentals on operating lease	(169,991)	-	(169,991)	(196,610)	(26,619)	
Debt Impairment	-	-	-	(2,355,110)	(2,355,110)	
Bulk purchases	(16,000,000)	-	(16,000,000)	(17,550,876)	(1,550,876)	
Contracted Services	(4,858,991)	-	(4,858,991)	(4,839,576)	19,415	
Transfers and Subsidies	(5,192,531)	-	(5,192,531)	-	5,192,531	
General Expenses	(39,231,091)	-	(39,231,091)	(38,223,287)	1,007,804	
Total expenditure	(152,803,589)	-	(152,803,589)	(141,004,137)	11,799,452	
	241,675,430	-	241,675,430	207,792,894	(33,882,536)	
	(152,803,589)	-	(152,803,589)	(141,004,137)	11,799,452	
Operating surplus	88,871,841	-	88,871,841	66,788,757	(22,083,084)	

Nquthu Local Municipality

Annual Financial Statements for the year ended June 30, 2018

Statement of Comparison of Budget and Actual Amounts

Budget on Accrual Basis						
	Approved budget	Adjustments	Final Budget	Actual amounts on comparable basis	Difference between final budget and actual	Reference
Figures in Rand						
Loss on disposal of assets and liabilities	-	-	-	(138,545)	(138,545)	
	88,871,841	-	88,871,841	66,788,757	(22,083,084)	
	-	-	-	(138,545)	(138,545)	
Surplus	88,871,841	-	88,871,841	66,650,212	(22,221,629)	
Deficit before taxation	88,871,841	-	88,871,841	66,650,212	(22,221,629)	
Taxation	-	-	-	-	-	
Actual Amount on Comparable Basis as Presented in the Budget and Actual Comparative Statement	88,871,841	-	88,871,841	66,650,212	(22,221,629)	

Nquthu Local Municipality

Annual Financial Statements for the year ended June 30, 2018

Statement of Comparison of Budget and Actual Amounts

Budget on Accrual Basis

	Approved budget	Adjustments	Final Budget	Actual amounts on comparable basis	Difference between final budget and actual	Reference
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Figures in Rand

Statement of Financial Position

Assets

Current Assets

Inventories	1,000,000	-	1,000,000	1,126,367	126,367	50
Receivables from exchange transactions	-	-	-	169,921	169,921	50
Receivables from non-exchange transactions	34,326,000	-	34,326,000	27,070,972	(7,255,028)	50
VAT receivable	-	-	-	4,084,624	4,084,624	50
Prepayments	-	-	-	688,266	688,266	Appendix E(1)
Cash and cash equivalents	180,868,000	-	180,868,000	231,170,485	50,302,485	50
	216,194,000	-	216,194,000	264,310,635	48,116,635	

Non-Current Assets

Investment property	858,000	-	858,000	815,707	(42,293)	
Property, plant and equipment	390,000,000	-	390,000,000	311,743,721	(78,256,279)	
Intangible assets	290,000	-	290,000	154,876	(135,124)	
Heritage assets	78,888	-	78,888	78,888	-	
	391,226,888	-	391,226,888	312,793,192	(78,433,696)	

Non-Current Assets	216,194,000	-	216,194,000	264,310,635	48,116,635	
Current Assets	391,226,888	-	391,226,888	312,793,192	(78,433,696)	
Total Assets	607,420,888	-	607,420,888	577,103,827	(30,317,061)	

Liabilities

Current Liabilities

Payables from exchange transactions	-	-	-	18,572,356	18,572,356	50
Consumer deposits	550,000	-	550,000	503,589	(46,411)	50
Unspent conditional grants and receipts	-	-	-	4,916,138	4,916,138	50
Provisions	4,100,000	-	4,100,000	6,620,544	2,520,544	50
Employee benefit obligation - current portion	-	-	-	112,188	112,188	50
	4,650,000	-	4,650,000	30,724,815	26,074,815	

Non-Current Liabilities

Employee benefit obligation	1,400,000	-	1,400,000	1,832,771	432,771	50
	4,650,000	-	4,650,000	30,724,815	26,074,815	
	1,400,000	-	1,400,000	1,832,771	432,771	
	-	-	-	-	-	
Total Liabilities	6,050,000	-	6,050,000	32,557,586	26,507,586	
Assets	607,420,888	-	607,420,888	577,103,827	(30,317,061)	
Liabilities	(6,050,000)	-	(6,050,000)	(32,557,586)	(26,507,586)	
Net Assets	601,370,888	-	601,370,888	544,546,241	(56,824,647)	

Nquthu Local Municipality

Annual Financial Statements for the year ended June 30, 2018

Statement of Comparison of Budget and Actual Amounts

Budget on Accrual Basis

	Approved budget	Adjustments	Final Budget	Actual amounts on comparable basis	Difference between final budget and actual	Reference
Figures in Rand						
Net Assets						
Net Assets						
Reserves						
Housing Development	-	-	-	112,725	112,725	50
Accumulated surplus	601,259,000	-	601,259,000	548,431,808	(52,827,192)	50
Total Net Assets	601,259,000	-	601,259,000	548,544,533	(52,714,467)	

Nquthu Local Municipality

Annual Financial Statements for the year ended June 30, 2018

Accounting Policies

1. Presentation of Annual Financial Statements

The annual financial statements have been prepared in accordance with the Standards of Generally Recognised Accounting Practice (GRAP), issued by the Accounting Standards Board in accordance with Section 122(3) of the Municipal Finance Management Act (Act 56 of 2003).

These annual financial statements have been prepared on an accrual basis of accounting and are in accordance with historical cost convention as the basis of measurement, unless specified otherwise. They are presented in South African Rand.

A summary of the significant accounting policies, which have been consistently applied in the preparation of these annual financial statements, are disclosed below.

These accounting policies are consistent with the previous period.

The annual financial statements have been prepared on an accrual basis of accounting and are in accordance with historical cost convention.

These annual financial statements have been prepared in accordance with Generally Recognised Accounting Practice (GRAP), issued by the Accounting Standards Board (ASB) in accordance with Section 122(3) of the Municipal Finance Management Act, (Act No 56 of 2003) with the exception of certain accounting policies adopted in accordance with International Accounting Standards (IAS).

The principal accounting policies adopted in the preparation of these annual financial statements are set out below:

- GRAP 1 Presentation of Financial Statement
- GRAP 2 Cash Flow Statements
- GRAP 3 Accounting Policies, Changes in Accounting Estimates and Error
- GRAP 5 Borrowing Costs
- GRAP 6 Consolidated and Separate Financial Statements
- GRAP 9 Revenue from Exchange Transactions
- GRAP 12 Inventories
- GRAP 13 Leases
- GRAP 14 Events after the Reporting Date
- GRAP 16 Investment property
- GRAP 17 Property, Plant and Equipment
- GRAP 19 Provisions, Contingent Liabilities and Contingent Asset
- GRAP 21 Impairment of non-cash generating asset
- GRAP 23 Revenue from Non-exchange transactions
- GRAP 24 Presentation of budget information
- GRAP 25 Employee benefits
- GRAP 26 Impairment of cash generating assets
- GRAP 31 Intangible Assets
- GRAP 100 Non-Current Assets Held for Sale and Discontinued Operations
- GRAP 103 Heritage Assets
- GRAP 104 Financial Instruments
- GRAP 106 Transfer of Functions between entities not under common Control

These accounting policies are consistent with the previous period.

1.1 Presentation currency

These annual financial statements are presented in South African Rand, which is the functional currency of the municipality.

1.2 Going concern assumption

These annual financial statements have been prepared based on the expectation that the municipality will continue to operate as a going concern for at least the next 12 months.

Accounting Policies

1.3 Significant judgements and sources of estimation uncertainty

In preparing the annual financial statements, management is required to make estimates and assumptions that affect the amounts represented in the annual financial statements and related disclosures. Use of available information and the application of judgement is inherent in the formation of estimates. Actual results in the future could differ from these estimates which may be material to the annual financial statements. Significant judgements include:

Provisions

Provisions were raised and management determined an estimate based on the information available. Additional disclosure of these estimates of provisions are included in note 16 - Provisions.

Post retirement benefits

The present value of the post retirement obligation depends on a number of factors that are determined on an actuarial basis using a number of assumptions. The assumptions used in determining the net cost (income) include the discount rate. Any changes in these assumptions will impact on the carrying amount of post retirement obligations.

Allowance for doubtful debts

On debtors an impairment loss is recognised in surplus and deficit when there is objective evidence that it is impaired. The impairment is measured as the difference between the debtors carrying amount and the present value of estimated future cash flows discounted at the effective interest rate, computed at initial recognition.

1.4 Investment property

Investment property is property (land or a building - or part of a building - or both) held to earn rentals or for capital appreciation or both, rather than for:

- use in the production or supply of goods or services or,
- administrative purposes, or
- sale in the ordinary course of operations.

Investment property is derecognised on disposal, or when the investment property is permanently withdrawn from use and no future economic benefits or service potential is expected from its disposal. Gains or losses arising from the retirement or disposal of investment property is the difference between the net disposal proceeds and the carrying amount of the asset and is recognised in surplus or deficit in the period of retirement or disposal.”.

Investment property is recognised as an asset when, it is probable that the future economic benefits or service potential that are associated with the investment property will flow to the municipality, and the cost or fair value of the investment property can be measured reliably.

Investment property is initially recognised at cost. Transaction costs are included in the initial measurement.

Where investment property is acquired through a non-exchange transaction, its cost is its fair value as at the date of acquisition.

Costs include costs incurred initially and costs incurred subsequently to add to, or to replace a part of, or service a property. If a replacement part is recognised in the carrying amount of the investment property, the carrying amount of the replaced part is derecognised.

Cost model

Investment property is carried at cost less accumulated depreciation and any accumulated impairment losses.

Depreciation is provided to write down the cost, less estimated residual value by equal installments over the useful life of the property, which is as follows:

Item	Useful life
Property - land	indefinite
Property - buildings	30 years

Compensation from third parties for investment property that was impaired, lost or given up is recognised in surplus or deficit when the compensation becomes receivable.

Accounting Policies

1.4 Investment property (continued)

Property interests held under operating leases are classified and accounted for as investment property in the following circumstances:

When classification is difficult, the criteria used to distinguish investment property from owner-occupied property and from property held for sale in the ordinary course of operations, including the nature or type of properties classified as held for strategic purposes, are as follows:

The nature OR type of properties classified as held for strategic purposes are as follows:

The municipality separately discloses expenditure to repair and maintain investment property in the notes to the annual financial statements (see note 4).

The municipality discloses relevant information relating to assets under construction or development, in the notes to the annual financial statements (see note 4).

1.5 Property, plant and equipment

Property, plant and equipment are tangible non-current assets (including infrastructure assets) that are held for use in the production or supply of goods or services, rental to others, or for administrative purposes, and are expected to be used during more than one period.

The cost of an item of property, plant and equipment is recognised as an asset when:

- it is probable that future economic benefits or service potential associated with the item will flow to the municipality; and
- the cost of the item can be measured reliably.

Property, plant and equipment is initially measured at cost.

The cost of an item of property, plant and equipment is the purchase price and other costs attributable to bring the asset to the location and condition necessary for it to be capable of operating in the manner intended by management. Trade discounts and rebates are deducted in arriving at the cost.

Where an asset is acquired through a non-exchange transaction, its cost is its fair value as at date of acquisition.

Where an item of property, plant and equipment is acquired in exchange for a non-monetary asset or monetary assets, or a combination of monetary and non-monetary assets, the asset acquired is initially measured at fair value (the cost). If the acquired item's fair value was not determinable, its deemed cost is the carrying amount of the asset(s) given up.

When significant components of an item of property, plant and equipment have different useful lives, they are accounted for as separate items (major components) of property, plant and equipment.

Costs include costs incurred initially to acquire or construct an item of property, plant and equipment and costs incurred subsequently to add to, replace part of, or service it. If a replacement cost is recognised in the carrying amount of an item of property, plant and equipment, the carrying amount of the replaced part is derecognised.

The initial estimate of the costs of dismantling and removing the item and restoring the site on which it is located is also included in the cost of property, plant and equipment, where the entity is obligated to incur such expenditure, and where the obligation arises as a result of acquiring the asset or using it for purposes other than the production of inventories.

Recognition of costs in the carrying amount of an item of property, plant and equipment ceases when the item is in the location and condition necessary for it to be capable of operating in the manner intended by management.

Items such as spare parts, standby equipment and servicing equipment are recognised when they meet the definition of property, plant and equipment.

Major inspection costs which are a condition of continuing use of an item of property, plant and equipment and which meet the recognition criteria above are included as a replacement in the cost of the item of property, plant and equipment. Any remaining inspection costs from the previous inspection are derecognised.

Property, plant and equipment is carried at cost less accumulated depreciation and any impairment losses.

Accounting Policies

1.5 Property, plant and equipment (continued)

Property, plant and equipment are depreciated on the straight line basis over their expected useful lives to their estimated residual value.

Property, plant and equipment is carried at cost less accumulated depreciation and any impairment losses.

Any increase in an asset's carrying amount, as a result of a revaluation, is credited directly to a revaluation surplus. The increase is recognised in surplus or deficit to the extent that it reverses a revaluation decrease of the same asset previously recognised in surplus or deficit.

Any decrease in an asset's carrying amount, as a result of a revaluation, is recognised in surplus or deficit in the current period. The decrease is debited in revaluation surplus to the extent of any credit balance existing in the revaluation surplus in respect of that asset.

The useful lives of items of property, plant and equipment have been assessed as follows:

Item	Depreciation method	Average useful life
Land	Straight line	Indefinite
Buildings	Straight line	30
Plant and machinery	Straight line	3-10
Furniture and fixtures	Straight line	3-10
Motor vehicles	Straight line	5-12
IT equipment	Straight line	5
Infrastructure Roads & Stormwater	Straight line	5-80
Community	Straight line	30
Infrastructure Electricity	Straight line	30
Investment property	Straight line	30

The depreciable amount of an asset is allocated on a systematic basis over its useful life.

Each part of an item of property, plant and equipment with a cost that is significant in relation to the total cost of the item is depreciated separately.

The depreciation method used reflects the pattern in which the asset's future economic benefits or service potential are expected to be consumed by the municipality. The depreciation method applied to an asset is reviewed at least at each reporting date and, if there has been a significant change in the expected pattern of consumption of the future economic benefits or service potential embodied in the asset, the method is changed to reflect the changed pattern. Such a change is accounted for as a change in an accounting estimate.

The depreciation charge for each period is recognised in surplus or deficit unless it is included in the carrying amount of another asset.

Items of property, plant and equipment are derecognised when the asset is disposed of or when there are no further economic benefits or service potential expected from the use of the asset.

The gain or loss arising from the derecognition of an item of property, plant and equipment is included in surplus or deficit when the item is derecognised. The gain or loss arising from the derecognition of an item of property, plant and equipment is determined as the difference between the net disposal proceeds, if any, and the carrying amount of the item.

The municipality separately discloses expenditure to repair and maintain property, plant and equipment in the notes to the financial statements (see note 5).

Accounting Policies

1.6 Intangible assets

An asset is identifiable if it either:

- is separable, i.e. is capable of being separated or divided from an entity and sold, transferred, licensed, rented or exchanged, either individually or together with a related contract, identifiable assets or liability, regardless of whether the entity intends to do so; or
- arises from binding arrangements (including rights from contracts), regardless of whether those rights are transferable or separable from the municipality or from other rights and obligations.

A binding arrangement describes an arrangement that confers similar rights and obligations on the parties to it as if it were in the form of a contract.

An intangible asset is recognised when:

- it is probable that the expected future economic benefits or service potential that are attributable to the asset will flow to the municipality; and
- the cost or fair value of the asset can be measured reliably.

The municipality assesses the probability of expected future economic benefits or service potential using reasonable and supportable assumptions that represent management's best estimate of the set of economic conditions that will exist over the useful life of the asset.

Where an intangible asset is acquired through a non-exchange transaction, its initial cost at the date of acquisition is measured at its fair value as at that date.

Intangible assets are carried at cost less any accumulated amortisation and any impairment losses.

An intangible asset is regarded as having an indefinite useful life when, based on all relevant factors, there is no foreseeable limit to the period over which the asset is expected to generate net cash inflows or service potential. Amortisation is not provided for these intangible assets, but they are tested for impairment annually and whenever there is an indication that the asset may be impaired. For all other intangible assets amortisation is provided on a straight line basis over their useful life.

The amortisation period and the amortisation method for intangible assets are reviewed at each reporting date.

Reassessing the useful life of an intangible asset with a finite useful life after it was classified as indefinite is an indicator that the asset may be impaired. As a result the asset is tested for impairment and the remaining carrying amount is amortised over its useful life.

Amortisation is provided to write down the intangible assets, on a straight line basis, to their residual values as follows:

Item	Depreciation method	Average useful life
Intangible assets are derecognised:		
• on disposal; or • when no future economic benefits or service potential are expected from its use or disposal.		

1.7 Heritage assets

Assets are resources controlled by an municipality as a result of past events and from which future economic benefits or service potential are expected to flow to the municipality.

Class of heritage assets means a grouping of heritage assets of a similar nature or function in an municipality's operations that is shown as a single item for the purpose of disclosure in the annual financial statements.

Accounting Policies

1.7 Heritage assets (continued)

Cost is the amount of cash or cash equivalents paid or the fair value of the other consideration given to acquire an asset at the time of its acquisition or construction or, where applicable, the amount attributed to that asset when initially recognised in accordance with the specific requirements of other Standards of GRAP.

Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction.

Heritage assets are assets that have a cultural, environmental, historical, natural, scientific, technological or artistic significance and are held indefinitely for the benefit of present and future generations.

The municipality separately discloses expenditure to repair and maintain heritage assets in the notes to the financial statements (see note 7).

Subsequent measurement

After recognition as an asset, a class of heritage assets is carried at its cost less any accumulated impairment losses.

After recognition as an asset, a class of heritage assets, whose fair value can be measured reliably, is carried at a revalued amount, being its fair value at the date of the revaluation less any subsequent impairment losses.

If a heritage asset's carrying amount is increased as a result of a revaluation, the increase is credited directly to a revaluation surplus. However, the increase is recognised in surplus or deficit to the extent that it reverses a revaluation decrease of the same heritage asset previously recognised in surplus or deficit.

If a heritage asset's carrying amount is decreased as a result of a revaluation, the decrease is recognised in surplus or deficit. However, the decrease is debited directly to a revaluation surplus to the extent of any credit balance existing in the revaluation surplus in respect of that heritage asset.

1.8 Financial instruments

Classification and derecognition

Classification depends on the purpose for which the financial instruments were obtained / incurred and takes place at initial recognition. Classification is re-assessed on an annual basis, except for derivatives and financial assets designated as at fair value through surplus or deficit, which shall not be classified out of the fair value through surplus or deficit category.

The municipality derecognises a financial asset when and only when; the rights to the cash flows from the financial asset expire; or it transfers the financial asset and the transfer qualifies for derecognition. The municipality first needs to evaluate the extent to which it retains the risks and rewards of ownership of the financial asset.

The municipality transfers a financial asset if and only if: the rights to receive cash flows from the asset have expired, or if the municipality has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a 'pass-through' arrangement; and either the municipality has transferred substantially all the risks and rewards of the asset, or the municipality has neither transferred nor retained substantially all the risks and rewards of the asset.

The municipality removes a financial liability (or part of financial liability) from its statement of financial position when, and only when, it is extinguished i.e. when the obligation specified in the contract is discharged or called or expires. An exchange between an existing borrower and lender of debt instruments with substantially different terms is accounted for as an extinguishment of the original financial liability and the recognition of a new financial liability.

The municipality recognises the difference between the carrying amount of the financial liability (or part of a financial liability) extinguished or transferred to another party and the consideration paid, including any non-cash assets transferred or liabilities assumed, in the Statement of Financial Performance.

Receivables from exchange transactions

Accounting Policies

1.8 Financial instruments (continued)

Trade receivables are initially recognised at fair value and are subsequently measured at amortised cost using the effective interest rate method. Appropriate allowances for estimated irrecoverable amounts are recognised in surplus or deficit when there is objective evidence that the asset is impaired. Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganisation, and default or delinquency in payments (more than 150 days overdue) are considered indicators that the trade receivable is impaired.

The carrying amount of the asset is reduced through the use of an allowance account, and the amount of the deficit is recognised in surplus or deficit within. When a trade receivable is uncollectible, it is written off against the allowance account for trade receivables. Subsequent recoveries of amounts previously written off are credited against surplus or deficit.

Payables from exchange transactions

Trade payables are initially measured at fair value and are subsequently measured at amortised cost using the effective interest rate method.

Cash and cash equivalents

Cash and cash equivalents comprise cash on hand and demand deposits, and other short-term highly liquid investments that are readily convertible to a known amount of cash and are subject to an insignificant risk of changes in value. These are initially recorded at amortised cost and are subsequently measured at amortised cost using the effective interest rate method.

Bank overdraft and borrowings

Bank overdrafts and borrowings are initially measured at fair value, and are subsequently measured at amortised cost, using the effective interest rate method. Any difference between the proceeds (net of transaction costs) and the settlement or redemption of borrowings is recognised over the term of the borrowings in accordance with the municipality's accounting policy for borrowing costs.

1.9 Leases

A lease is classified as a finance lease if it transfers substantially all the risks and rewards incidental to ownership. A lease is classified as an operating lease if it does not transfer substantially all the risks and rewards incidental to ownership.

When a lease includes both land and buildings elements, the entity assesses the classification of each element separately.

Finance leases - lessee

Finance leases are recognised as assets and liabilities in the statement of financial position at amounts equal to the fair value of the leased property or, if lower, the present value of the minimum lease payments. The corresponding liability to the lessor is included in the statement of financial position as a finance lease obligation.

The discount rate used in calculating the present value of the minimum lease payments is the interest rate implicit in the lease.

Minimum lease payments are apportioned between the finance charge and reduction of the outstanding liability. The finance charge is allocated to each period during the lease term so as to produce a constant periodic rate of return on the remaining balance of the liability.

Operating leases - lessee

Operating lease payments are recognised as an expense on a straight-line basis over the lease term. The difference between the amounts recognised as an expense and the contractual payments are recognised as an operating lease asset or liability.

Accounting Policies

1.10 Inventories

Inventories are initially measured at cost except where inventories are acquired through a non-exchange transaction, then their costs are their fair value as at the date of acquisition.

Subsequently inventories are measured at the lower of cost and net realisable value.

Inventories are measured at the lower of cost and current replacement cost where they are held for;

- distribution at no charge or for a nominal charge; or
- consumption in the production process of goods to be distributed at no charge or for a nominal charge.

Net realisable value is the estimated selling price in the ordinary course of operations less the estimated costs of completion and the estimated costs necessary to make the sale, exchange or distribution.

Current replacement cost is the cost the municipality incurs to acquire the asset on the reporting date.

The cost of inventories comprises of all costs of purchase, costs of conversion and other costs incurred in bringing the inventories to their present location and condition.

The cost of inventories of items that are not ordinarily interchangeable and goods or services produced and segregated for specific projects is assigned using specific identification of the individual costs.

The cost of inventories is assigned using the weighted average cost formula. The same cost formula is used for all inventories having a similar nature and use to the municipality.

When inventories are sold, the carrying amounts of those inventories are recognised as an expense in the period in which the related revenue is recognised. If there is no related revenue, the expenses are recognised when the goods are distributed, or related services are rendered. The amount of any write-down of inventories to net realisable value or current replacement cost and all losses of inventories are recognised as an expense in the period the write-down or loss occurs. The amount of any reversal of any write-down of inventories, arising from an increase in net realisable value or current replacement cost, are recognised as a reduction in the amount of inventories recognised as an expense in the period in which the reversal occurs.

1.11 Impairment of cash-generating assets

Cash-generating assets are assets used with the objective of generating a commercial return. Commercial return means that positive cash flows are expected to be significantly higher than the cost of the asset.

Impairment is a loss in the future economic benefits or service potential of an asset, over and above the systematic recognition of the loss of the asset's future economic benefits or service potential through depreciation (amortisation).

Carrying amount is the amount at which an asset is recognised in the statement of financial position after deducting any accumulated depreciation and accumulated impairment losses thereon.

A cash-generating unit is the smallest identifiable group of assets used with the objective of generating a commercial return that generates cash inflows from continuing use that are largely independent of the cash inflows from other assets or groups of assets.

Costs of disposal are incremental costs directly attributable to the disposal of an asset, excluding finance costs and income tax expense.

Depreciation (Amortisation) is the systematic allocation of the depreciable amount of an asset over its useful life.

Fair value less costs to sell is the amount obtainable from the sale of an asset in an arm's length transaction between knowledgeable, willing parties, less the costs of disposal.

Recoverable amount of an asset or a cash-generating unit is the higher its fair value less costs to sell and its value in use.

Useful life is either:

- the period of time over which an asset is expected to be used by the municipality; or

Accounting Policies

1.11 Impairment of cash-generating assets (continued)

- the number of production or similar units expected to be obtained from the asset by the municipality.

Judgements made by management in applying the criteria to designate assets as cash-generating assets or non-cash-generating assets, are as follows:

[Specify judgements made]

Identification

When the carrying amount of a cash-generating asset exceeds its recoverable amount, it is impaired.

The municipality assesses at each reporting date whether there is any indication that a cash-generating asset may be impaired. If any such indication exists, the municipality estimates the recoverable amount of the asset.

Irrespective of whether there is any indication of impairment, the municipality also test a cash-generating intangible asset with an indefinite useful life or a cash-generating intangible asset not yet available for use for impairment annually by comparing its carrying amount with its recoverable amount. This impairment test is performed at the same time every year. If an intangible asset was initially recognised during the current reporting period, that intangible asset was tested for impairment before the end of the current reporting period.

1.12 Impairment of non-cash-generating assets

Cash-generating assets are assets used with the objective of generating a commercial return. Commercial return means that positive cash flows are expected to be significantly higher than the cost of the asset.

Non-cash-generating assets are assets other than cash-generating assets.

Impairment is a loss in the future economic benefits or service potential of an asset, over and above the systematic recognition of the loss of the asset's future economic benefits or service potential through depreciation (amortisation).

Carrying amount is the amount at which an asset is recognised in the statement of financial position after deducting any accumulated depreciation and accumulated impairment losses thereon.

A cash-generating unit is the smallest identifiable group of assets managed with the objective of generating a commercial return that generates cash inflows from continuing use that are largely independent of the cash inflows from other assets or groups of assets.

Costs of disposal are incremental costs directly attributable to the disposal of an asset, excluding finance costs and income tax expense.

Depreciation (Amortisation) is the systematic allocation of the depreciable amount of an asset over its useful life.

Fair value less costs to sell is the amount obtainable from the sale of an asset in an arm's length transaction between knowledgeable, willing parties, less the costs of disposal.

Recoverable service amount is the higher of a non-cash-generating asset's fair value less costs to sell and its value in use.

Useful life is either:

- the period of time over which an asset is expected to be used by the municipality; or
- the number of production or similar units expected to be obtained from the asset by the municipality.

Judgements made by management in applying the criteria to designate assets as non-cash-generating assets or cash-generating assets, are as follows:

[Specify judgements made]

Accounting Policies

1.13 Share capital / contributed capital

An equity instrument is any contract that evidences a residual interest in the assets of an municipality after deducting all of its liabilities.

1.14 Employee benefits

Short-term employee benefits

The cost of short-term employee benefits, (those payable within 12 months after the service is rendered, such as paid vacation leave and sick leave, bonuses, and non-monetary benefits such as medical care), are recognised in the period in which the service is rendered and are not discounted.

The expected cost of compensated absences is recognised as an expense as the employees render services that increase their entitlement or, in the case of non-accumulating absences, when the absence occurs.

Defined contribution plans

The Municipality and its employees contribute to the Natal Joint Municipal Pension Fund, KwaZulu-Natal Joint Municipal Provident Fund (NJMPF) and the Government Employees Pension Fund (GEPF) which provides retirement benefits to such employees. The retirement benefit plan is subject to the rules and regulations prescribed by the Local Government Superannuation Ordinance, 1973 (Ordinance No. 24 of 1973) and in accordance with the requirements of the Pension Fund Act, 1956. Current contributions are charged against operating income on the basis of current service costs. Full actuarial valuations are performed every three years.

Whilst employees are employed by the municipality, the municipality contributes to their pension funds and medical aids. On termination, resignation or retirement of employees the municipality no longer contributes on their behalf and thus there are no post employment benefits.

Defined benefit plans

For defined benefit plans the cost of providing the benefits is determined using the projected credit method.

Actuarial valuations are conducted on an annual basis by independent actuaries separately for each plan.

Consideration is given to any event that could impact the funds up to end of the reporting period where the interim valuation is performed at an earlier date.

Past service costs are recognised immediately to the extent that the benefits are already vested, and are otherwise amortised on a straight line basis over the average period until the amended benefits become vested.

To the extent that, at the beginning of the financial period, any cumulative unrecognised actuarial gain or loss exceeds ten percent of the greater of the present value of the projected benefit obligation and the fair value of the plan assets (the corridor), that portion is recognised in surplus or deficit over the expected average remaining service lives of participating employees. Actuarial gains or losses within the corridor are not recognised.

Gains or losses on the curtailment or settlement of a defined benefit plan is recognised when the entity is demonstrably committed to curtailment or settlement.

When it is virtually certain that another party will reimburse some or all of the expenditure required to settle a defined benefit obligation, the right to reimbursement is recognised as a separate asset. The asset is measured at fair value. In all other respects, the asset is treated in the same way as plan assets. In surplus or deficit, the expense relating to a defined benefit plan is presented as the net of the amount recognised for a reimbursement.

The amount recognised in the statement of financial position represents the present value of the defined benefit obligation as adjusted for unrecognised actuarial gains and losses and unrecognised past service costs, and reduces by the fair value of plan assets.

Any asset is limited to unrecognised actuarial losses and past service costs, plus the present value of available refunds and reduction in future contributions to the plan.

Accounting Policies

1.15 Provisions and contingencies

Provisions are recognised when:

- the municipality has a present obligation as a result of a past event;
- it is probable that an outflow of resources embodying economic benefits or service potential will be required to settle the obligation; and
- a reliable estimate can be made of the obligation.

The amount of a provision is the best estimate of the expenditure expected to be required to settle the present obligation at the reporting date.

Where some or all of the expenditure required to settle a provision is expected to be reimbursed by another party, the reimbursement is recognised when, and only when, it is virtually certain that reimbursement will be received if the municipality settles the obligation. The reimbursement is treated as a separate asset. The amount recognised for the reimbursement does not exceed the amount of the provision.

A provision is used only for expenditures for which the provision was originally recognised.

Provisions are not recognised for future operating surplus (deficit).

Contingent assets and contingent liabilities are not recognised.

The municipality has a landfill site, although this has been since been discontinued to function due to environmental concerns.

Determining whether an outflow of resources is probable in relation to financial guarantees requires judgement.

Indications that an outflow of resources may be probable are:

- financial difficulty of the debtor;
- defaults or delinquencies in interest and capital repayments by the debtor;
- breaches of the terms of the debt instrument that result in it being payable earlier than the agreed term and the ability of the debtor to settle its obligation on the amended terms; and
- a decline in prevailing economic circumstances (e.g. high interest rates, inflation and unemployment) that impact on the ability of entities to repay their obligations.

Where a fee is received by the municipality for issuing a financial guarantee and/or where a fee is charged on loan commitments, it is considered in determining the best estimate of the amount required to settle the obligation at reporting date. Where a fee is charged and the municipality considers that an outflow of economic resources is probable, an municipality recognises the obligation at the higher of:

- the amount determined using in the Standard of GRAP on Provisions, Contingent Liabilities and Contingent Assets; and
- the amount of the fee initially recognised less, where appropriate, cumulative amortisation recognised in accordance with the Standard of GRAP on Revenue from Exchange Transactions.

1.16 Revenue from exchange transactions

Revenue is the gross inflow of economic benefits or service potential during the reporting period when those inflows result in an increase in net assets, other than increases relating to contributions from owners.

An exchange transaction is one in which the municipality receives assets or services, or has liabilities extinguished, and directly gives approximately equal value (primarily in the form of goods, services or use of assets) to the other party in exchange.

Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction.

Measurement

Accounting Policies

1.16 Revenue from exchange transactions (continued)

Revenue is measured at the fair value of the consideration received or receivable, net of trade discounts and volume rebates.

Rendering of services

When the outcome of a transaction involving the rendering of services can be estimated reliably, revenue associated with the transaction is recognised by reference to the stage of completion of the transaction at the reporting date. The outcome of a transaction can be estimated reliably when all the following conditions are satisfied:

- the amount of revenue can be measured reliably;
- it is probable that the economic benefits or service potential associated with the transaction will flow to the municipality;
- the stage of completion of the transaction at the reporting date can be measured reliably; and
- the costs incurred for the transaction and the costs to complete the transaction can be measured reliably.

When services are performed by an indeterminate number of acts over a specified time frame, revenue is recognised on a straight line basis over the specified time frame unless there is evidence that some other method better represents the stage of completion. When a specific act is much more significant than any other acts, the recognition of revenue is postponed until the significant act is executed.

When the outcome of the transaction involving the rendering of services cannot be estimated reliably, revenue is recognised only to the extent of the expenses recognised that are recoverable.

Service revenue is recognised by reference to the stage of completion of the transaction at the reporting date. Stage of completion is determined by services performed to date as a percentage of total services to be performed.

1.17 Interest and rental income

Interest is recognised using the effective interest rate method. Rentals are recognised on a time proportion basis.

1.18 Borrowing costs

Borrowing costs are interest and other expenses incurred by an entity in connection with the borrowing of funds.

Borrowing costs are recognised as an expense in the period in which they are incurred.

1.19 Comparative figures

Where necessary, comparative figures have been reclassified to conform to changes in presentation in the current year.

1.20 Unauthorised expenditure

Unauthorised expenditure means:

- overspending of a vote or a main division within a vote; and
- expenditure not in accordance with the purpose of a vote or, in the case of a main division, not in accordance with the purpose of the main division.

Unauthorised expenditure is recognised as an expense in the statement of financial performance in the year that the expenditure was incurred. The expenditure is classified in accordance with the nature of the expense, and where recovered, it is subsequently accounted for as revenue in the statement of financial performance.

1.21 Fruitless and wasteful expenditure

Fruitless expenditure means expenditure which was made in vain and would have been avoided had reasonable care been exercised.

Accounting Policies

1.21 Fruitless and wasteful expenditure (continued)

All expenditure relating to fruitless and wasteful expenditure is recognised as an expense in the statement of financial performance in the year that the expenditure was incurred. The expenditure is classified in accordance with the nature of the expense, and where recovered, it is subsequently accounted for as revenue in the statement of financial performance.

1.22 Irregular expenditure

Irregular expenditure is expenditure that is contrary to the Municipal Finance Management Act (Act No.56 of 2003), the Municipal Systems Act (Act No.32 of 2000), and the Public Office Bearers Act (Act No. 20 of 1998) or is in contravention of the economic entity's supply chain management policy. Irregular expenditure excludes unauthorised expenditure. Irregular expenditure is accounted for as expenditure in the Statement of Financial Performance and where recovered, it is subsequently accounted for as revenue in the Statement of Financial Performance.

Irregular expenditure is also any expenditure incurred in contravention of the municipality's supply chain management policy.

Irregular expenditure that was incurred and identified during the current financial year and which was condoned before year end and/or before finalisation of the financial statements must also be recorded appropriately in the irregular expenditure register. In such an instance, no further action is also required with the exception of updating the note to the financial statements.

Irregular expenditure that was incurred and identified during the current financial year and for which condonement is being awaited at year end must be recorded in the irregular expenditure register. No further action is required with the exception of updating the note to the financial statements.

Where irregular expenditure was incurred in the previous financial year and is only condoned in the following financial year, the register and the disclosure note to the financial statements must be updated with the amount condoned.

Irregular expenditure that was incurred and identified during the current financial year and which was not condoned by the National Treasury or the relevant authority must be recorded appropriately in the irregular expenditure register. If liability for the irregular expenditure can be attributed to a person, a debt account must be created if such a person is liable in law. Immediate steps must thereafter be taken to recover the amount from the person concerned. If recovery is not possible, the accounting officer or accounting authority may write off the amount as debt impairment and disclose such in the relevant note to the financial statements. The irregular expenditure register must also be updated accordingly. If the irregular expenditure has not been condoned and no person is liable in law, the expenditure related thereto must remain against the relevant programme/expenditure item to be disclosed as such in the note to the financial statements and updated accordingly in the irregular expenditure register.

Irregular expenditure is expenditure that is contrary to the Municipal Finance Management Act (Act No.56 of 2003), the Municipal Systems Act (Act No.32 of 2000), and the Public Office Bearers Act (Act No. 20 of 1998) or is in contravention of the economic entity's supply chain management policy. Irregular expenditure excludes unauthorised expenditure. Irregular expenditure is accounted for as expenditure in the Statement of Financial Performance and where recovered, it is subsequently accounted for as revenue in the Statement of Financial Performance.

1.23 Use of estimates

The preparation of annual financial statements in conformity with Standards of GRAP requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the municipality's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the annual financial statements are disclosed in the relevant sections of the annual financial statements. Although these estimates are based on management's best knowledge of current events and actions they may undertake in the future, actual results ultimately may differ from those estimates.

1.24 Budget information

Municipality are typically subject to budgetary limits in the form of appropriations or budget authorisations (or equivalent), which is given effect through authorising legislation, appropriation or similar.

General purpose financial reporting by municipality shall provide information on whether resources were obtained and used in accordance with the legally adopted budget.

Accounting Policies

1.24 Budget information (continued)

The approved budget is prepared on a cash basis and presented by economic classification linked to performance outcome objectives.

The approved budget covers the fiscal period from 7/1/2016 to 6/30/2017.

The budget for the economic entity includes all the entities approved budgets under its control.

The annual financial statements and the budget are on the same basis of accounting therefore a comparison with the budgeted amounts for the reporting period have been included in the Statement of comparison of budget and actual amounts.

1.25 Related parties

A related party is a person or an entity with the ability to control or jointly control the other party, or exercise significant influence over the other party, or vice versa, or an entity that is subject to common control, or joint control.

Control is the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities.

Joint control is the agreed sharing of control over an activity by a binding arrangement, and exists only when the strategic financial and operating decisions relating to the activity require the unanimous consent of the parties sharing control (the venturers).

Related party transaction is a transfer of resources, services or obligations between the reporting entity and a related party, regardless of whether a price is charged.

Significant influence is the power to participate in the financial and operating policy decisions of an entity, but is not control over those policies.

Management are those persons responsible for planning, directing and controlling the activities of the municipality, including those charged with the governance of the municipality in accordance with legislation, in instances where they are required to perform such functions.

Close members of the family of a person are considered to be those family members who may be expected to influence, or be influenced by, that management in their dealings with the municipality.

The municipality is exempt from disclosure requirements in relation to related party transactions if that transaction occurs within normal supplier and/or client/recipient relationships on terms and conditions no more or less favourable than those which it is reasonable to expect the municipality to have adopted if dealing with that individual entity or person in the same circumstances and terms and conditions are within the normal operating parameters established by that reporting entity's legal mandate.

Where the municipality is exempt from the disclosures in accordance with the above, the municipality discloses narrative information about the nature of the transactions and the related outstanding balances, to enable users of the entity's financial statements to understand the effect of related party transactions on its annual financial statements.

1.26 Events after reporting date

Events after reporting date are those events, both favourable and unfavourable, that occur between the reporting date and the date when the financial statements are authorised for issue. Two types of events can be identified:

- those that provide evidence of conditions that existed at the reporting date (adjusting events after the reporting date); and
- those that are indicative of conditions that arose after the reporting date (non-adjusting events after the reporting date).

The municipality will adjust the amount recognised in the financial statements to reflect adjusting events after the reporting date once the event occurred.

The municipality will disclose the nature of the event and an estimate of its financial effect or a statement that such estimate cannot be made in respect of all material non-adjusting events, where non-disclosure could influence the economic decisions of users taken on the basis of the financial statements.

Nquthu Local Municipality

Annual Financial Statements for the year ended June 30, 2018

Accounting Policies

1.27 Commitments

The municipality at the end of the reporting period will have commitments in relation to the transactions in progress that will be finished after reporting date.

These will be disclosed in the commitments indicating if they are contracted or not. The property, plant and equipment note will also detail those projects that are under construction as at reporting date.

The commitment will arise either if the transaction was concluded at year-end or not in relation to the signing of the contract. If the bidding process is still under way the commitment will also be raised.

1.28 Going concern assumption

The annual financial statements have been prepared on the basis of accounting policies applicable to a going concern. This basis presumes that funds will be available to finance future operations and that the realisation of assets and settlement of liabilities, contingent obligations and commitments will occur in the ordinary course of business.

Nquthu Local Municipality

Annual Financial Statements for the year ended June 30, 2018

Notes to the Annual Financial Statements

Figures in Rand	2018	2017
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2. Changes in accounting policy

The annual financial statements have been prepared in accordance with Standards of Generally Recognised Accounting Practice on a basis consistent with the prior year except for the adoption of the following new or revised standards.

The aggregate effect of the changes in accounting policy on the annual financial statements for the year ended June 30, 2017 is as follows:

Management do not have sufficient records relating to interest capitalised on plant and equipment to enable retrospective expensing of borrowing cost. For this reason the change in accounting policy is applied prospectively.

[If retrospective application is impracticable for a particular prior period, or for periods before those presented, disclose the circumstances that led to the existence of that condition and a description of how and from when the change in accounting policy has been applied.]

The municipality has not applied the new [name the standard or interpretation] issued, and effective for periods commencing . [Describe the new required treatment and the current treatment.] The estimated impact of the implementation of the new standard on the 2018 annual financial statements is as follows:

3. New standards and interpretations

3.1 Standards and interpretations issued, but not yet effective

The municipality has not applied the following standards and interpretations, which have been published and are mandatory for the municipality's accounting periods beginning on or after July 1, 2018 or later periods:

• GRAP 6 (as revised 2010): Consolidated and Separate Financial Statements	April 1, 2019	Unlikely there will be a material impact
• GRAP 7 (as revised 2010): Investments in Associates	April 1, 2019	Unlikely there will be a material impact

3.2 Standards and interpretations not yet effective or relevant

The following standards and interpretations have been published and are mandatory for the municipality's accounting periods beginning on or after July 1, 2018 or later periods but are not relevant to its operations:

Standard/ Interpretation:	Effective date: Years beginning on or after	Expected impact:
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4. Investment property

	2018			2017		
	Cost / Valuation	Accumulated depreciation and accumulated impairment	Carrying value	Cost / Valuation	Accumulated depreciation and accumulated impairment	Carrying value
Investment property	1,999,640	(1,183,933)	815,707	1,999,640	(1,115,284)	884,356

Reconciliation of investment property - 2018

	Opening balance	Depreciation	Total
Investment property	884,356	(68,649)	815,707

Nquthu Local Municipality

Annual Financial Statements for the year ended June 30, 2018

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Figures in Rand	2018	2017
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4. Investment property (continued)

Reconciliation of investment property - 2017

	Opening balance	Depreciation	Total
Investment property	953,000	(68,644)	884,356

A register containing the information required by section 63 of the Municipal Finance Management Act is available for inspection at the registered office of the municipality. The municipality applies the cost model in respect of Investment Properties.

Investment Properties are depreciated on the straight-line method over the applicable useful lives as disclosed in the accounting policy note for Investment Properties.

The Investment Properties disclosed above with a carrying value of R 884 356 at 30 June 2018 (2017: R 953 000).

In respect of these Investment Properties, rental revenue to the amount of R 301,226 (2017: R 254 232) was recognised in surplus or deficit during the current financial year.

Direct operating expenses (repairs and maintenance) recognised in surplus or deficit, arising from the Investment Properties amounts to R 0., of which R 0 is derived from Investment Properties that generated rental revenue and R 0 is derived from Investment Properties that did not generate rental revenue.

There are no restrictions on the realisability of investment property or the remittance of revenue and proceeds of disposal, as well as no contractual obligations to purchase, construct or develop Investment Property or for repairs, maintenance or enhancements.

5. Property, plant and equipment

	2018			2017		
	Cost / Valuation	Accumulated depreciation and accumulated impairment	Carrying value	Cost / Valuation	Accumulated depreciation and accumulated impairment	Carrying value
Land	13,270,852	-	13,270,852	13,270,852	-	13,270,852
Buildings	134,732,373	(18,547,796)	116,184,577	121,401,803	(14,378,048)	107,023,755
Plant and machinery	5,690,233	(2,947,726)	2,742,507	5,690,450	(2,575,098)	3,115,352
Furniture and fixtures	4,757,484	(2,976,729)	1,780,755	4,166,145	(2,629,801)	1,536,344
Motor vehicles	28,440,276	(12,462,617)	15,977,659	27,391,474	(9,515,032)	17,876,442
IT equipment	2,612,172	(1,753,425)	858,747	3,196,957	(1,946,558)	1,250,399
Infrastructure Roads & Stormwater	189,488,739	(38,215,246)	151,273,493	168,527,221	(29,227,471)	139,299,750
Community	3,092,494	(1,779,239)	1,313,255	3,092,494	(1,642,350)	1,450,144
Infrastructure Electricity	15,862,893	(7,521,017)	8,341,876	15,862,893	(6,909,987)	8,952,906
Total	397,947,516	(86,203,795)	311,743,721	362,600,289	(68,824,345)	293,775,944

Nquthu Local Municipality

Annual Financial Statements for the year ended June 30, 2018

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5. Property, plant and equipment (continued)

Reconciliation of property, plant and equipment - 2018

	Opening balance	Additions	Work in progress	Disposals	Depreciation	Impairment loss	Impairment reversal	Total
Land	13,270,852	-	-	-	-	-	-	13,270,852
Buildings	107,023,755	1,568,124	11,748,967	-	(4,158,637)	-	2,368	116,184,577
Plant and machinery	3,115,352	25,999	-	(2,780)	(391,331)	(4,733)	-	2,742,507
Furniture and fixtures	1,536,344	749,358	-	(30,132)	(473,743)	(1,072)	-	1,780,755
Motor vehicles	17,876,442	1,048,802	-	-	(2,947,585)	-	-	15,977,659
IT equipment	1,250,399	73,497	-	(97,461)	(367,688)	-	-	858,747
Infrastructure Roads & Stormwater	139,299,750	1,347,633	19,483,722	-	(8,857,612)	-	-	151,273,493
Community	1,450,144	-	-	-	(136,889)	-	-	1,313,255
Infrastructure Electricity	8,952,906	-	-	-	(611,030)	-	-	8,341,876
	293,775,944	4,813,413	31,232,689	(130,373)	(17,944,515)	(5,805)	2,368	311,743,721

Reconciliation of property, plant and equipment - 2017

	Opening balance	Additions	Work in progress	Disposals	Other changes, movements	Depreciation	Impairment loss	Total
Land	13,270,852	-	-	-	-	-	-	13,270,852
Buildings	90,653,162	3,180,284	16,785,167	-	(199,349)	(3,395,509)	-	107,023,755
Plant and machinery	3,551,162	30,320	-	(43,943)	2,379	(423,691)	(875)	3,115,352
Furniture and fixtures	1,634,520	106,689	-	(11,067)	195,399	(388,235)	(962)	1,536,344
Motor vehicles	20,927,003	104,995	-	(260,972)	-	(2,894,584)	-	17,876,442
IT equipment	1,314,871	340,429	-	(14,004)	-	(389,331)	(1,566)	1,250,399
Infrastructure Roads & Stormwater	117,992,854	-	28,984,008	-	1,569	(7,678,681)	-	139,299,750
Community	1,611,762	-	-	-	-	(139,507)	(22,111)	1,450,144
Infrastructure Electricity	9,563,904	-	-	-	-	(610,998)	-	8,952,906
	260,520,090	3,762,717	45,769,175	(329,986)	(2)	(15,920,536)	(25,514)	293,775,944

Nquthu Local Municipality

Annual Financial Statements for the year ended June 30, 2018

Notes to the Annual Financial Statements

Figures in Rand	2018	2017
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5. Property, plant and equipment (continued)

Pledged as security

There are no assets pledged as security:

Details of properties

A comprehensive Fixes Assets Register containing the information required by section 63 of the Municipal Finance Management Act is available for inspection at the registered office of the municipality.
For a detailed breakdown of PPE refer to Appendix B and C. The majority of municipal roads are gravel roads mainly constructed from the MIG funding.

Reconciliation of Work-in-Progress 2018

	Included within Infrastructure	Included within Community	Total
Opening balance	25,008,007	15,683,364	40,691,371
Additions/capital expenditure	24,271,541	6,961,146	31,232,687
Transferred to completed items	(6,242,013)	(2,470,078)	(8,712,091)
	43,037,535	20,174,432	63,211,967

Reconciliation of Work-in-Progress 2017

	Included within Infrastructure	Included within Community	Total
Opening balance	30,530,801	42,887,452	73,418,253
Additions/capital expenditure	28,984,008	16,785,167	45,769,175
Transferred to completed items	(37,687,087)	(43,989,255)	(81,676,342)
	21,827,722	15,683,364	37,511,086

Expenditure incurred to repair and maintain property, plant and equipment

Expenditure incurred to repair and maintain property, plant and equipment included in Statement of Financial Performance

Contracted services	2,010,772	2,134,869
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The municipality through its Assets Management Policy makes a provision for maintenance of its PPE and this has been implemented where the PPE are maintained to keep them in good condition. Direct operating expenses (repairs and maintenance) recognised in surplus or deficit.

A register containing the information required by section 63 of the Municipal Finance Management Act is available for inspection at the registered office of the municipality.

6. Intangible assets

	2018			2017		
	Cost / Valuation	Accumulated amortisation and accumulated impairment	Carrying value	Cost / Valuation	Accumulated amortisation and accumulated impairment	Carrying value
Computer software, other	623,878	(469,002)	154,876	623,878	(394,540)	229,338

Nquthu Local Municipality

Annual Financial Statements for the year ended June 30, 2018

Notes to the Annual Financial Statements

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6. Intangible assets (continued)

Reconciliation of intangible assets - 2018

	Opening balance	Amortisation	Total
Computer software, other	229,338	(74,462)	154,876

Reconciliation of intangible assets - 2017

	Opening balance	Amortisation	Total
Computer software, other	306,757	(77,419)	229,338

Pledged as security

There are no intangible assets pledged as security:

7. Heritage assets

	2018			2017		
	Cost / Valuation	Accumulated impairment losses	Carrying value	Cost / Valuation	Accumulated impairment losses	Carrying value
Art Collections, antiquities and exhibits	78,888	-	78,888	78,888	-	78,888

8. Employee benefit obligations

Defined benefit plan

Long Service Award (LSA)

The Municipality offers employees Long Service Award (LSA) for every five years of service completed, from ten years of service to 45 years of service, inclusive.

The full actuarial report is available for inspection at municipal offices.

The amounts recognised in the statement of financial position are as follows:

Carrying value

Present value of the defined benefit obligation-wholly unfunded	(1,832,771)	(1,384,397)
Fair value of plan assets	-	(137,287)
	(1,832,771)	(1,521,684)

[Provide a brief description of the link between the reimbursement right(s) and the related obligation]

The fair value of plan assets includes:

Changes in the present value of the defined benefit obligation are as follows:

Opening balance	2,413,003	2,226,562
Net expense recognised in the statement of financial performance	423,275	186,441
	2,836,278	2,413,003

Nquthu Local Municipality

Annual Financial Statements for the year ended June 30, 2018

Notes to the Annual Financial Statements

Figures in Rand	2018	2017
8. Employee benefit obligations (continued)		
Net expense recognised in the statement of financial performance		
Current service cost	194,379	202,498
Interest cost	133,662	130,907
Actuarial (gains) losses	95,234	(146,964)
	423,275	186,441

Notes to the Annual Financial Statements

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8. Employee benefit obligations (continued)**Key assumptions used****Financial Assumptions**

It is difficult to predict future investment returns and salary inflation rates. The relationship between them is more stable and therefore easier to predict. GRAP 25 requires that financial assumptions be based on market expectations at the Valuation Date for the period over which the liability obligations are to be settled.

Discount Rate: stipulates that the choice of this rate should be derived from government bond yields consistent with the estimated term of the employee benefit liabilities. However, where there is no deep market in government bonds with a sufficiently long maturity to match the estimated term of all the benefit payments, current market rates of the appropriate term should be used to discount shorter term payments, and the discount rate for longer maturities should be estimated by extrapolating current market rates along the yield curve.

Consequently, a discount rate of 8.68% per annum has been used. The first step in the derivation of this yield is to calculate the liability-weighted average of the yields corresponding to the actual terms until payment of long service awards, for each employee. The 8.68% is then derived as the liability-weighted average of the yields derived in the first step. The corresponding liability-weighted index-linked yield is 2.77%. These rates do not reflect any adjustment for taxation. These rates were deduced from the yield curve obtained from the Bond Exchange of South Africa after the market close on 30 June 2018.

The liability-weighted average term of the total liability is 7.77 years.

Salary Inflation Rate: This assumption is required to reflect the estimated growth in salaries of the eligible employees until retirement. It is important in that the LSA are based on an employee's salary at the date of the award.

The assumption is traditionally split into two components, namely General Salary Inflation and Promotional Salary Escalation. The latter is considered under demographic assumptions.

General Salary Inflation: This assumption is more stable relative to the growth in Consumer Price Index (CPI) than in absolute terms. In most industries, experience has shown, that over the long-term, salary inflation is between 1.0% and 1.5% above CPI inflation.

The expected inflation assumption of 5.26% was obtained from the differential between market yields on index-linked bonds (2.77%) consistent with the estimated terms of the liabilities and those of nominal bonds (8.68%) with a risk premium adjustment for the uncertainty implicit in guaranteeing real increases (0.50%). Therefore, expected inflation is determined as $((1+8.68\%-0.50\%)/(1+2.77\%))-1$.

Thus, a general salary inflation rate of 6.26% per annum over the expected term of the liability has been assumed, which is 1.00% higher than the estimate of CPI inflation over the same term. This assumption reflects a net discount rate of 2.28%.

It has been assumed that the next salary increase will take place on 1 July 2019.

The basis used to determine the overall expected rate of return on assets is as follow: [provide details]

The effect of the major categories of plan assets is as follow: [state effect]

Salaries - Changes in an index or other variable specified in the formal or constructive terms of a plan as the basis for future benefit increases: [provide details]

The basis on which the discount rate has been determined is as follow: [state basis]

The basis used to determine the overall expected rate of return on assets, including the effect of the major categories of plan assets, is as follows:

Nquthu Local Municipality

Annual Financial Statements for the year ended June 30, 2018

Notes to the Annual Financial Statements

Figures in Rand	2018	2017
9. Inventories		
Consumable stores	1,126,367	1,079,883
10. Receivables from exchange transactions		
Sundry debtors	169,921	169,921
Consumer debtors - Electricity	1,281,473	1,822,780
Consumer debtors - Refuse	12,277,875	18,141,474
Consumer debtors - Market Stalls	902,611	869,809
Debt Impairment	(10,463,663)	(9,108,553)
	4,168,217	11,895,431
Electricity		
Current (0 -30 days)	882,407	901,337
31 - 60 days	40,423	165,745
61 - 90 days	27,078	126,388
91 - 120 days	17,156	91,511
121 - 365 days	10,252	286,649
> 365 days	304,157	251,151
	1,281,473	1,822,781
Summary of debtors by customer classification		
Households	111,429	126,387
Commercial	911,985	758,678
National and provincial government	258,059	849,298
Other	-	88,418
	1,281,473	1,822,781
Refuse		
Current (0 -30 days)	121,561	215,894
31 - 60 days	82,765	168,800
61 - 90 days	64,015	156,242
91 - 120 days	77,846	151,276
121 - 365 days	53,918	1,795,393
181 - 365 days	11,877,770	15,653,869
	12,277,875	18,141,474
Summary of debtors by customer classification		
Households	2,534,173	2,504,654
Commercial	109,945	201,499
National and provincial government	9,633,757	15,407,908
Other	-	27,413
	12,277,875	18,141,474
Reconciliation of provision for impairment of trade and other receivables		
Opening balance	(9,108,553)	(8,602,116)
Provision for impairment	(1,355,110)	(506,437)
	(10,463,663)	(9,108,553)

Nquthu Local Municipality

Annual Financial Statements for the year ended June 30, 2018

Notes to the Annual Financial Statements

Figures in Rand	2018	2017
11. Receivables from non-exchange transactions		
Fines	2,452,810	1,780,330
Government grants and subsidies	3,747,744	7,937,130
Property Rates	22,747,873	19,275,159
Other receivables from non-exchange revenue 1	1,699,597	1,950
Provision for impairment	(3,577,052)	(3,577,052)
	27,070,972	25,417,517
Property Rates		
Current (0 -30 days)	129,160	410,499
31 - 60 days	144,168	165,331
61 - 90 days	899,492	909,445
91 - 120 days	868,480	885,998
121 - 150 days	885,998	860,251
> 365 days	19,820,575	16,043,636
	22,747,873	19,275,160
Summary of debtors by customer classification		
Households	1,986,100	2,225,530
Commercial	831,560	1,570,872
National and provincial government	22,173,275	12,101,752
Other	-	3,376,996
	24,990,935	19,275,150

Reconciliation of provision for impairment of receivables from non-exchange transactions

Opening balance	(3,577,052)	(3,086,831)
Provision for impairment	(1,000,000)	(490,221)
	(4,577,052)	(3,577,052)

The cause of high debt on the rates is due to the state owned properties that are in the process of being donated to the municipality. Although the donation has been signed by the two parties, the actual transfers have not materialised and as such the rates and refuse charges are still being raised to the relevant department, further the Department of Human Settlement is not prepared to pay the bills raised citing that all obligations on these properties were transferred to the municipality but the municipality cannot deem this as municipal property and charges are raised and full provision for impairment is also made. The donation agreement and the list of all affected properties are available for inspection at municipal offices.

12. VAT receivable

VAT	4,084,624	1,930,774
Reconciliation of Vat		
Vat / Tax Control Account	(81,880,480)	(71,672,471)
Input Vat - (Vendors)	1,545,508	743,349
Output Vat - (Billing)	(502,906)	(718,926)
Input Vat Paid	99,042,242	85,492,642
Output Vat Received	(14,119,739)	(11,913,820)
	4,084,625	1,930,774

Included in the above is the VAT claim relating to the INEP grant as per the contingent disclosure note 38

13. Cash and cash equivalents

Cash and cash equivalents consist of:

Nquthu Local Municipality

Annual Financial Statements for the year ended June 30, 2018

Notes to the Annual Financial Statements

Figures in Rand	2018	2017
13. Cash and cash equivalents (continued)		
Bank balances	12,290,596	2,975,701
Short-term deposits	218,879,889	165,083,635
	231,170,485	168,059,336

Funds not immediately available are invested with commercial banks in terms of the Cash and Investment policy and Municipal Investment Regulations.

Some other conditional grants agreements require that a separate investment (call account) be opened for them so that interest can be easily identified and accrued to the grant. These being the individual investments mentioned above and the remainder of investments is made up of own cash reserves and those grants not requiring separate investments account.

Credit quality of cash at bank and short term deposits, excluding cash on hand

The credit quality of cash at bank and short term deposits, excluding cash on hand that are neither past due nor impaired can be assessed by reference to external credit ratings (if available) or historical information about counterpart default rates:

The municipality had the following bank accounts

Account number / description	Bank statement balances			Cash book balances		
	June 30, 2018	June 30, 2017	June 30, 2016	June 30, 2018	June 30, 2017	June 30, 2016
ABSA BANK - Cheque Account - 405-3562-762	12,001,307	2,765,933	34,982	12,001,307	2,702,602	(17,684)
ABSA BANK - Savings Account - 914-2845-014	289,208	273,083	256,091	289,208	273,083	257,091
Total	12,290,515	3,039,016	291,073	12,290,515	2,975,685	239,407

14. Statutory reserve

Housing Development Fund	112,725	106,440
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This fund is regulated by the agreements and directives that are issued by the Human settlement department and is having a dedicated bank account.

Nquthu Local Municipality

Annual Financial Statements for the year ended June 30, 2018

Notes to the Annual Financial Statements

Figures in Rand	2018	2017
15. Unspent conditional grants and receipts		
Unspent conditional grants and receipts comprises of:		
Unspent conditional grants and receipts		
Municipal Government Grant	23,974	23,974
Capacity Building	40,882	40,882
MFMA Grant	2,602	2,602
Cybercadet	220,147	-
Integrated Development Plan Grant	-	172,531
Municipal Infrastructure Grant	2,868,645	-
Municipal Systems Improvement Grant	-	81,129
Finance Management grant	-	28,506
COGTA Electrification grant	31,879	31,879
Bornem grant	836,728	523,702
Library Volunteer	128,773	36,773
Small business incubator grant	17,986	17,986
Sportsfield grant (Isilonjane)	20,331	20,331
DOE Electrification Grant (INEP)	-	39,295
Extended Public Works Grant (EPWP)	-	39,181
Sportsfield Maintenance Grant	194,191	156,930
Unspent Library modular	530,000	-
	4,916,138	1,215,701

The nature and extent of government grants recognised in the annual financial statements and an indication of other forms of government assistance from which the municipality has directly benefited; and unfulfilled conditions and other contingencies attaching to government assistance that has been recognised

Unfulfilled conditions and other contingencies attaching to government assistance that has been recognised.

See Appendix F for reconciliation of grants from National/Provincial Government.

These amounts are invested in a ring-fenced investment until utilised. Other grants require that a separate investment account be opened and this has been complied with.

Nquthu Local Municipality

Annual Financial Statements for the year ended June 30, 2018

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16. Provisions

Reconciliation of provisions - 2018

	Opening Balance	Additions	Utilised during the year	Total
Environmental rehabilitation	193,766	837,805	-	1,031,571
Leave pay provision	3,588,216	1,039,293	(64,859)	4,562,650
Provision 2	542,507	483,816	-	1,026,323
	4,324,489	2,360,914	(64,859)	6,620,544

Reconciliation of provisions - 2017

	Opening Balance	Additions	Utilised during the year	Total
Environmental rehabilitation	193,766	-	-	193,766
Leave pay provision	3,809,473	91,805	(313,062)	3,588,216
Provision 2	628,899	-	(86,392)	542,507
	4,632,138	91,805	(399,454)	4,324,489

Environmental rehabilitation provision

The municipality is required to provide for the rehabilitation of the landfill site after the end of its useful life. The cost to rehabilitate the landfill site has been estimated by the engineers to be R 500 000 and the remaining life is 10-12 years.

However in November 2012 the landfill site was permanently closed and no future use was permitted due to environmental regulations. The process to rehabilitate the land is underway. No new provisions are raised since this site is not utilised anymore.

The new landfill site was opened and is fully licenced , the provision for rehabilitation was done and the report is available for inspection.

Leave Provision

The leave pay provision is based on the number of days each employee has accrued at year-end in terms of the South African Local Government Bargaining Agreement, and is calculated at termination rate.

17. Payables from exchange transactions

Trade payables	12,268,186	6,154,026
Payments received in advanced - contract in process	1,006,980	-
Pro-rata Accrued bonus	1,253,101	989,574
Other payables	151,863	117,768
Retentions	3,892,226	-
	18,572,356	7,261,368

The high increase in the Trade payables is due to the late approval of MIG invoices by COGTA where such was only approved and subsequently paid after the year-end. Bonus accrue to staff on an annual basis based on their anniversary month. The provision is an estimate of the amount payable to staff for the following year on a pro-rata basis. The timing of the amount is uncertain with regards to payment of pro-rata bonus when staff members resign.

18. Consumer deposits

Electricity	452,081	467,102
Refuse	51,508	56,000
	503,589	523,102

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Figures in Rand	2018	2017
19. Revenue		
Service charges	12,747,470	14,763,782
Rental of facilities and equipment	501,745	523,454
Interest received (trading)	597,266	840,839
Licences and permits	859,238	788,998
Miscellaneous other revenue	1,169,877	2,069,590
Commissions received	115,534	120,352
Interest received - investment	16,916,977	12,813,407
Property rates	18,181,392	18,788,771
Property rates - penalties imposed	1,389,933	1,321,378
Government grants & subsidies	154,605,199	146,116,986
Fines, Penalties and Forfeits	708,263	612,316
	207,792,894	198,759,873
The amount included in revenue arising from exchanges of goods or services are as follows:		
Service charges	12,747,470	14,763,782
Rental of facilities and equipment	501,745	523,454
Interest received (trading)	597,266	840,839
Licences and permits	859,238	788,998
Miscellaneous other revenue	1,169,877	2,069,590
Commissions received	115,534	120,352
Interest received - investment	16,916,977	12,813,407
	32,908,107	31,920,422
The amount included in revenue arising from non-exchange transactions is as follows:		
Taxation revenue		
Property rates	18,181,392	18,788,771
Property rates - penalties imposed	1,389,933	1,321,378
Transfer revenue		
Government grants & subsidies	154,605,199	146,116,986
Fines, Penalties and Forfeits	708,263	612,316
	174,884,787	166,839,451
20. Service charges		
Sale of electricity	11,379,461	13,083,445
Refuse removal	1,368,009	1,680,337
	12,747,470	14,763,782
21. Other revenue		
Commissions received	115,534	120,352

Nquthu Local Municipality

Annual Financial Statements for the year ended June 30, 2018

Notes to the Annual Financial Statements

Figures in Rand	2018	2017
22. Investment revenue		
Interest revenue		
Bank	16,916,977	12,813,407
	-	-
	<u>16,916,977</u>	<u>12,813,407</u>

The amount included in Investment revenue arising from exchange transactions amounted to R -.

The amount included in Investment revenue arising from non-exchange transactions amounted to R -.

Total interest income, calculated using the effective interest rate, on financial instruments not at fair value through surplus or deficit amounted to Rxxx (PY: Rxxx).

23. Property rates

Rates received

Residential	20,782,421	21,012,121
Less: Income forgone	(2,601,029)	(2,223,350)
	<u>18,181,392</u>	<u>18,788,771</u>
Property rates - penalties imposed	1,389,933	1,321,378
	<u>19,571,325</u>	<u>20,110,149</u>

Valuations

Residential	452,598,500	406,111,000
Commercial	549,904,000	597,588,500
State	401,398,000	401,398,000
Municipal	32,975,000	29,838,000
	<u>1,436,875,500</u>	<u>1,434,935,500</u>

The first valuation in terms of the Property Rates Act No.6 of 2004 came into effect on 01 July 2009. Valuations on land and buildings are performed every 3 years but the valuation roll is valid for four years. Interim valuations are processed on an annual basis to take into account changes in individual property values due to alterations and subdivisions. Due to political climate in the municipality an application was made to the MEC for Local Government to have the validity of the valuation roll extended by a year which was subsequently approved. But this will be for the next reporting period.

A general rate of R 0.014 (2017:R 0.014) is applied to property valuations to determine assessment rates.

Rates are levied on an annual basis with the final date for payment being Saturday, June 30, 2018 (Friday, June 30, 2017). Interest at prime plus 2% per annum (2017:prime plus 2%), is levied on rates outstanding two months after due date.

Different rate randage are charged for different categories of rate payers. Primary statutory rebates is on first R 15 000 of property value, additional rebates were granted to all residential category of ratepayers as contained in the Council's approved Property Rates Policy for R 135 000 through reduction in value.

Nquthu Local Municipality

Annual Financial Statements for the year ended June 30, 2018

Notes to the Annual Financial Statements

Figures in Rand	2018	2017
24. Government grants and subsidies		
Operating grants		
Equitable share	115,616,477	110,256,000
Cybercadet Grant	376,719	349,388
Municipal Finance Management Grant	1,874,506	1,796,494
Municipal Systems Improvement Grant	81,130	46,209
Library Support	1,449,802	1,119,000
Grant - Library Volunteer	-	12,857
Bornem Grant	541,737	1,695,639
Expanded Public Works Programme	1,003,001	1,286,163
DLGTA - IDP	172,531	-
Sportfield maintenance grant	129,738	48,083
	121,245,641	116,609,833
Capital grants		
Municipal Infrastructure Grant	33,359,558	29,507,153
	121,245,641	116,609,833
	33,359,558	29,507,153
	154,605,199	146,116,986

Conditional and Unconditional

Included in above are the following grants and subsidies received:

Conditional grants received	35,860,986	35,860,986
Unconditional grants received	118,744,213	110,256,000
	154,605,199	146,116,986

Equitable Share

In terms of the Constitution, this grant is used to subsidise the provision of basic services to indigent community members.

All the residents with electricity get a Free Basic Electricity monthly allowance of 50kWh (2017: 50kWh), and relief is also provided to households who are indigent, pensioners and child-headed which is funded from the Equitable Share.

Municipal Government Grant

Balance unspent at beginning of year	23,974	23,974
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Conditions still to be met - remain liabilities (see note 15). Provincial Local Government grants are used to implement administrative and financial framework and to improve governance. The grants are spent in accordance with a business plan approved by the Provincial Government.

Provide explanations of conditions still to be met and other relevant information.

Capacity Building

Balance unspent at beginning of year	40,882	40,882
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Conditions still to be met - remain liabilities (see note 15). Provincial Local Government grants are used to implement administrative and financial framework and to provide a municipal infrastructure framework. The grants are spent in accordance with a business plan approved by the Provincial Government.

Provide explanations of conditions still to be met and other relevant information.

MFMA

Nquthu Local Municipality

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Notes to the Annual Financial Statements

Figures in Rand	2018	2017
24. Government grants and subsidies (continued)		
Balance unspent at beginning of year	2,602	2,602
Conditions still to be met - remain liabilities (see note 15).		
Cybercadet Grant		
Balance unspent at beginning of year	-	33,254
Current-year receipts	376,000	-
Conditions met - transferred to revenue	(376,719)	(349,388)
Other	220,866	316,134
	220,147	-
Conditions still to be met - remain liabilities (see note 15).		
Library assistants are appointed and their salaries paid monthly. The department did not pay the allocations due to the municipality as gazetted, therefore all the expenditure incurred has been disclosed as debt due to the municipality.		
Provincial Library Grants were allocated to subsidise the purchase of equipment for municipal libraries as well as contribution towards library staff salaries. Further funding was received for the installation of computer hardware and software for public Internet access, the cost of the Internet connectivity, furniture to house these computers and salaries for the employment of "cybercadets". The subsidies are spent in accordance with a business plan approved by the Provincial Government. No funds have been withheld.		
Integrated Development Plan Grant		
Balance unspent at beginning of year	172,531	172,531
Conditions met - transferred to revenue	(172,531)	-
	-	172,531
Conditions still to be met - remain liabilities (see note 15).		
Improvement in the IDP processes will be undertaken in the ensuing financial year..		
Municipal Infrastructure Grant (MIG)		
Current-year receipts	42,691,000	29,778,000
Conditions met - transferred to revenue	(39,822,355)	(29,778,000)
	2,868,645	-
Conditions still to be met - remain liabilities (see note 15). National Conditional Grant are allocated in terms of the Division of Revenue Act. This grant is used to construct roads infrastructure as part of the uplifting the community, 15% of the funds should be spent on the sports facilities. No funds have been withheld.		
There is an unspent grant of R 2.8 million which is fully committed and the municipality will apply for a formal rollover by National Treasury.		
Municipal Systems Improvement Grant (MSIG)		
Balance unspent at beginning of year	81,129	127,338
Conditions met - transferred to revenue	(81,129)	(46,209)
	-	81,129

Nquthu Local Municipality

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Notes to the Annual Financial Statements

Figures in Rand	2018	2017
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24. Government grants and subsidies (continued)

Conditions still to be met - remain liabilities (see note 15). National Conditional Grant are allocated in terms of the Division of Revenue Act. The Municipal Systems Improvement Grant is used to assist municipalities to perform their functions and stabilise institutional and governance systems as required in the Municipal Systems Act and related legislation.

Provide explanations of conditions still to be met and other relevant information.

Municipal Finance Management Grant (MFMG)

Balance unspent at beginning of year	28,506	-
Current-year receipts	1,900,000	1,800,000
Conditions met - transferred to revenue	(1,928,506)	(1,771,494)
	-	28,506

Conditions still to be met - remain liabilities (see note 15).

.National Conditional Grants are allocated in terms of the Division of Revenue Act. The Financial Management Grant is used to promote and support reforms in financial management by building capacity in municipalities to implement the Municipal Finance Management Act (MFMA).

COGTA Massification (Electrification) grant

Balance unspent at beginning of year	31,879	803,296
Current-year receipts	-	8,611,000
Conditions met - transferred to revenue	-	(9,382,417)
	31,879	31,879

Conditions still to be met - remain liabilities (see note 15).

This is the the Provincial Government grants from the Co-operative Government and Traditional Affairs department to fund the electrification of households in wards 3, 10 and 13. The contractor is on site. This project is under the distribution licence area of Eskom and on commissioning it will be handed over to Eskom for operating.

Bornem grant

Balance unspent at beginning of year	523,702	173,275
Current-year receipts	854,763	2,046,066
Conditions met - transferred to revenue	(541,737)	(1,695,639)
	836,728	523,702

Conditions still to be met - remain liabilities (see note 15).

This grants is from the Bornem municipality in Belgium which the municipality has the city to city co-operation and they give us funding to implement projects of mutual interest like youth, children, education. Projects under the MOA are still outstanding and under SCM processes

Library Volunteer

Balance unspent at beginning of year	36,773	49,630
Current-year receipts	92,000	-
Conditions met - transferred to revenue	-	(12,857)
	128,773	36,773

Conditions still to be met - remain liabilities (see note 15).

The volunteers are appointed but they are getting their stipends monthly.

Nquthu Local Municipality

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Notes to the Annual Financial Statements

Figures in Rand	2018	2017
24. Government grants and subsidies (continued)		
Small business incubator grant		
Balance unspent at beginning of year	17,986	17,986
Conditions still to be met - remain liabilities (see note 15).		
This is the the Provincial Government grants from the Co-operative Government and Traditional Affairs department to fund the construction of the business incubator. The contractor is on site and finishing off the building for phase II.		
Sportsfield grant (Isilonjane)		
Balance unspent at beginning of year	20,331	20,331
Conditions still to be met - remain liabilities (see note 15).		
This is the the Provincial Government grants from the Sports and Recreation department to fund the refurbishment of Isilonjane Stadium. The stadium has been completed and these funds will be returned to the department should there be no further usage approved.		
DOE Electrification Grant (INEP)		
Balance unspent at beginning of year	39,295	-
Current-year receipts	24,000,000	18,000,000
Conditions met - transferred to revenue	(24,039,295)	(17,960,705)
	-	39,295
Conditions still to be met - remain liabilities (see note 15).g		
The contractor is on-site and the electrification is underway. Department of Minerals and Energy provided a grant in support of Electrification Projects. The grants are spent in accordance with an approved business plan. This project is under the distribution licence area of Eskom and on commissioning it will be handed over to Eskom for operating.		
Extended Public Works Grant (EPWP)		
Balance unspent at beginning of year	39,181	-
Current-year receipts	1,003,000	1,337,000
Conditions met - transferred to revenue	(1,042,181)	(1,297,819)
	-	39,181
Conditions still to be met - remain liabilities (see note 15). National Conditional Grants are allocated in terms of the Division of Revenue Act. The grant is to incentivise municipalities to expand work creation efforts through the use of labour intensive delivery methods in compliance with EPWP Guidelines.		
Provide explanations of conditions still to be met and other relevant information.		
Library Support		
Balance unspent at beginning of year	1	1
Current-year receipts	2,608,000	-
Conditions met - transferred to revenue	(2,608,001)	-
	-	1
Conditions still to be met - remain liabilities (see note 15).		
Library support staff is appointed and their salaries paid monthly. The department did not pay the allocations due to the municipality as gazetted, therefore all the expenditure incurred has been disclosed as debt due to the municipality.		

Nquthu Local Municipality

Annual Financial Statements for the year ended June 30, 2018

Notes to the Annual Financial Statements

Figures in Rand	2018	2017
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24. Government grants and subsidies (continued)

Modulor Library Support

Current-year receipts	530,000	-
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Conditions still to be met - remain liabilities (see note 15).

Provide explanations of conditions still to be met and other relevant information.

Changes in level of government grants

Based on the allocations set out in the Division of Revenue Act, (Act 1 of 2018), no significant changes in the level of government grant funding are expected over the forthcoming 3 financial years.

Nquthu Local Municipality

Annual Financial Statements for the year ended June 30, 2018

Notes to the Annual Financial Statements

Figures in Rand	2018	2017
25. Employee related costs		
Basic	36,143,963	30,622,478
Bonus	2,935,857	1,847,657
Medical aid - company contributions	1,548,697	1,354,395
UIF	307,253	243,681
WCA	-	4,290
SDL	386,278	306,282
Leave pay provision charge	1,039,295	91,806
Group Life Insurance	5,474	5,474
Defined contribution plans	3,954,116	3,230,314
Overtime payments	1,904,160	1,314,526
Long-service awards	411,036	140,469
Housing benefits and allowances	35,848	27,454
Telephone and Cellphone Allowance	36,092	37,539
SALGBC Levies	18,787	13,837
	48,726,856	39,240,202

The salaries of the Senior Management detailed below are included in the overall salary cost above.

Remuneration of municipal manager

Annual Remuneration	1,199,812	1,117,559
Contributions to UIF, Medical and Pension Funds	13,486	12,755
Other	12,000	12,000
	1,225,298	1,225,298

Remuneration of chief finance officer

Annual Remuneration	1,056,693	984,252
Contributions to UIF, Medical and Pension Funds	11,980	11,347
Other	6,000	6,000
	1,074,673	1,001,599

Corporate and human resources (corporate services)

Annual Remuneration	256,615	201,856
Contributions to UIF, Medical and Pension Funds	3,081	2,301
Other	-	939
	259,696	205,096

Development planning and Housing

Annual Remuneration	952,182	886,618
Contributions to UIF, Medical and Pension Funds	11,227	10,354
Other	6,000	6,000
	969,409	902,972

Technical Services

Annual Remuneration	156,315	886,618
Contributions to UIF, Medical and Pension Funds	1,840	10,354
Other	692	6,000
	158,847	902,972

Nquthu Local Municipality

Annual Financial Statements for the year ended June 30, 2018

Notes to the Annual Financial Statements

Figures in Rand	2018	2017
26. Remuneration of councillors		
Executive Major	636,995	120,476
Deputy Executive Mayor	518,475	88,761
Mayoral Committee Members	1,515,050	277,369
Speaker	399,612	68,843
Councillors	7,748,965	5,978,927
Contributions to UIF and SDL	66,193	40,015
	10,885,290	6,574,391
In-kind benefits		
The MEC for Local Government designated three political offices to be full-time i.e. Mayor, Deputy Mayor and Speaker, however the Speaker is currently not utilising this as he is currently in full-time state employment . The Mayor, Deputy Mayor and Speaker are provided with an office and individual secretarial support at the cost of the Council while all other councilors share the secretariat. During the prior year period the Council was dissolved after failing to establish itself and the councilors were only paid for 9 months as opposed to full months in current year.. The Mayor, Deputy Mayor and Speaker have the use of Council owned vehicle for official duties, they have full-time drivers and bodyguards as per their tools of trade. The Mayor has three full-time bodyguards . The Deputy Mayor and speaker have two full-time bodyguards. The Councilor allowances are as per the Government Notice No. R 1440 dated 15 December 2017 and approved by the MEC for CoGTA at 100% of upper-limits as applicable to grade 3 for part-time and full-time councilors where applicable.		
27. Depreciation and amortisation		
Property, plant and equipment	18,228,900	16,066,603
28. Impairment of assets		
Impairments		
Property, plant and equipment	(2,368)	25,512
	(2,368)	25,512
	-	-
29. Finance costs		
Non-current borrowings	-	3,594
30. Debt impairment		
Contributions to debt impairment provision	2,355,110	996,659
31. Bulk purchases		
Electricity	17,550,876	17,152,275
32. Contracted services		
Security	4,839,576	3,205,395

Nquthu Local Municipality

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Notes to the Annual Financial Statements

Figures in Rand	2018	2017
33. General expenses		
Advertising	342,259	151,698
Auditors remuneration	3,451,699	1,937,633
Bank charges	138,498	119,518
Cleaning	324,352	588,475
Commission paid	118,171	121,140
Consulting and professional fees	5,114,005	4,215,459
Consumables	896,344	748,441
Entertainment	90,463	56,767
Disaster Management	1,218,800	1,223,180
Hire	109,600	73,768
Insurance	652,791	527,497
Youth development and training	6,853,823	4,890,073
IT expenses	1,125,076	584,589
Publicity	785,547	706,570
Promotions and sponsorships	451,702	119,786
Medical expenses	-	1,000
Motor vehicle expenses	63,125	208,863
Fuel and oil	1,741,133	1,195,972
Printing and stationery	631,995	374,357
Community Development Projects	1,260,109	2,455,746
Repairs and Maintenance	2,010,773	2,134,868
Software expenses	891,774	955,181
Subscriptions and membership fees	140,565	579,662
Telephone and fax	281,477	233,773
Training	429,035	859,607
Travel - local	2,481,844	2,805,332
Electricity	447,163	495,686
Water	686,281	369,402
Uniforms	420,195	620,614
Tourism development	267,496	455,841
Audit Committee	101,439	39,061
Indigent Support(FBE)	2,346,878	2,371,339
Ward Committees Stipends	1,511,070	119,200
Environmental provisions	837,805	-
	38,223,287	32,340,098
34. Auditors' remuneration		
External Audit Fees	1,230,739	1,086,328
Internal Audit Fees	2,220,960	851,305
	3,451,699	1,937,633
35. Operating lease		
The municipality is leasing photocopying machines on a 36 months operating starting on 01 September 2017 and ending on 31 August 2020, with no annual escalation on rentals. There is no contingent rent payable. Describe the lessee's significant leasing arrangements which include:		
Minimum lease payment		
- within one year	216,169	7,749
- later than one year and not later than five years	216,169	-
- later than later five years	44,916	-
	477,254	7,749

Nquthu Local Municipality

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Notes to the Annual Financial Statements

Figures in Rand	2018	2017
36. Cash generated from operations		
Surplus	66,650,212	82,676,000
Adjustments for:		
Depreciation and amortisation	18,228,900	16,066,603
Gain on sale of assets and liabilities	138,545	329,989
Impairment	(2,368)	25,512
Movements in retirement benefit assets and liabilities	311,087	137,287
Movements in provisions	2,296,055	(307,649)
Prior-year adjustments	(6,567,929)	28,533
Changes in working capital:		
Inventories	34,893	34,895
Receivables from exchange transactions	7,727,214	(664,288)
Other receivables from non-exchange transactions	(1,653,455)	(5,805,941)
Prepayments	(688,266)	-
Payables from exchange transactions	11,310,988	(3,094,946)
VAT	(2,153,850)	10,014,672
Unspent conditional grants and receipts	3,700,436	(287,409)
Consumer deposits	(19,513)	8,415
Employee benefit obligation -current portion	(12,486)	(202,506)
Housing Development fund	6,233	6,233
	99,306,696	98,965,400

Nquthu Local Municipality

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Notes to the Annual Financial Statements

Figures in Rand	2018	2017
37. Commitments		
Authorised capital expenditure		
Already contracted		
• Property, plant and equipment (Work in progress)	26,848,332	34,559,061
Not yet contracted for and authorised by accounting officer		
• Property, plant and equipment	58,338,578	41,510,536
Total capital commitments		
Already contracted for but not provided for	26,848,332	34,559,061
Not yet contracted for and authorised by accounting officer	58,338,578	41,510,536
	85,186,910	76,069,597
Authorised operational expenditure		
Already contracted for but not provided for		
• Professional Services - Property Valuation	920,000	-
Not yet contracted for and authorised by accounting officer		
• Contracted services - Municipal general security	16,517,131	-
Total operational commitments		
Already contracted for but not provided for	920,000	-
Not yet contracted for and authorised by accounting officer	16,517,131	-
	17,437,131	-
Total commitments		
Total commitments		
Authorised capital expenditure	85,186,910	76,069,597
Authorised operational expenditure	17,437,131	-
	102,624,041	76,069,597

This committed expenditure relates to property and will be financed by available bank facilities, retained surpluses, existing cash resources, funds internally generated, etc. Included above are contracts relating to electrification projects that are in the Eskom licence area which are subsequently handed over to Eskom after completion.

Operating leases - as lessee (expense)

Minimum lease payments due		
- within one year	216,169	7,749
- in second to fifth year inclusive	216,169	-
- later than five years	44,916	-
	477,254	7,749

Operating lease payments represent rentals payable by the municipality for certain of its office properties. Leases are negotiated for an average term of seven years and rentals are fixed for an average of three years. No contingent rent is payable. Additional information on leases is disclosed on note 35

Nquthu Local Municipality

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Figures in Rand	2018	2017
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38. Contingencies

There is a pending matter relating to INEP/Massification grants treatment of VAT that the municipality claimed as Input VAT based on previous guidance issued by Treasury, subsequent to that there is a guidance that affected the treatment of spending on these grants which have impact on the VAT Input already claimed and for future. The current amount is estimated at R 8 million, once we sought additional guidance this will be treated accordingly. The matter is relating to the treatment of electrification grants expenditure on the areas under the licensed areas of Eskom where we are handing over such project on completion to Eskom for maintenance.

Nquthu Plaza-McCormick is demanding the municipality to finalise the transfer of land that was bought, the municipality is defending this matter as there are conditions in the deed of sale that the buyer has failed to meet. The municipality is willing to finalise the sale once the conditions are met. The estimated legal costs are R 100 000..

Claim for loss of support from family of former councillor Ntombela who was killed in school premises where he was also teacher, where another learner was killed and others injured. The estimated claim and legal costs value is R 20 670 000.

LNS Holding who was an appointed middle-housing developer is demanding the municipality to finalise transfers to buyers of sites, the municipality is defending the matter because the agreement was not to sell vacant and commercial sites, but to build and sell houses. Furthermore gains from those site sales were not paid over to the municipality. Estimated legal costs are R 100 000.

Disputes regarding appointment of senior managers is in the High Court where the MEC for CoGTA has submitted application for the provision of further documents in the renewal process of existing senior managers and new appointment. The estimated legal fees are R 300 000.

Department of Labour is charging the municipality for not submitting the Employment Equity Plan and the estimated cost is R 20 000.

Dees Tow-Ins & Auto Works was appointed to tow the truck to Vryheid but they towed it to their premises in Dundee and subsequently claimed storage fees and refused to release the truck and take it to Vryheid, the estimated costs including legal fees is R 50 000.

Summary of matters

LNS Holding	100,000	100,000
Nquthu Plaza-McCormick	100,000	-
MEC for CoGTA	300,000	-
Department of Labour	20,000	-
Dees Tow-Ins & Auto Works	50,000	-
Ntombela family and others	20,670,000	-
INEP grant/Eskom	8,000,000	4,000,000
	29,240,000	4,100,000

39. Related parties

The salaries of members of key management and councilors are disclosed under the employee costs note 26. The municipality does not have any other related parties except for the management and councilors we also do not have a municipal entity.

The municipality did not have any related party transactions.

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40. Change in estimate

Property, plant and equipment

The municipality has conducted the review of the remaining useful lives of assets. Such review has been completed on Furniture and Fittings as well as Computer Equipment and the following results were achieved.

The indicator, "The asset is approaching the end of its previously expected useful life", was identified in respect of 948 assets. Management determined that these assets will still be in use for at least the next two financial periods and the remaining useful lives of these assets were extended accordingly.

The impact of the adjustment is that depreciation charges on Property, Plant and Equipment for the 2018 financial period has decreased by R138,710.02 for the 2018, 2019, and 2020 financial periods.

41. Prior period errors

Statement of financial position

Property, plant and equipment	- (25,953,389)
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Statement of financial performance

Depreciation expense	- (25,953,389)
Grants Expenditure	- 25,953,389

42. Comparative figures

No comparative figures have been reclassified or restated, the initial implementation of Municipal Standard Chart of Accounts Regulations (MSCOA) did not have any material classification changes on the prior year financial statements. Since the Municipal Council was dissolved in prior year there were many activities that required the Council to undertake that were not undertaken, this will cause higher variances on year on year comparative basis.

43. Risk management

Financial risk management

The municipality's activities expose it to a variety of financial risks: the current global economic crisis may have effect whereby businesses closes and fail to pay their debts due, also the unemployment levels will increase and more debts maybe written-off.

Credit risk

Credit risk consists mainly of cash deposits, cash equivalents, derivative financial instruments and trade debtors. The municipality only deposits cash with major banks with high quality credit standing and limits exposure to any one counter-party.

Trade receivables comprise a widespread customer base. Management evaluated credit risk relating to customers on an ongoing basis. .

The municipality is exposed to a number of guarantees for the overdraft facilities of economic entities and for guarantees issued in favour of the creditors of A (Pty) Ltd. Refer to note for additional details.

Market risk

Interest rate risk

As the municipality does have significant interest-bearing assets, the municipality's income and operating cash flows are substantially independent of changes in market interest rates. But the municipality is only investing on banks as per Cash and Investment regulations which limits the exposure.

Nquthu Local Municipality

Annual Financial Statements for the year ended June 30, 2018

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44. Going concern

The annual financial statements have been prepared on the basis of accounting policies applicable to a going concern. This basis presumes that funds will be available to finance future operations and that the realisation of assets and settlement of liabilities, contingent obligations and commitments will occur in the ordinary course of business.

45. Events after the reporting date

No material facts and circumstances have occurred between the accounting date and the date of this report that would have an impact on the financial statements.

46. Unauthorised expenditure

There were no unauthorised expenditure recorded in the financial year.

47. Fruitless and wasteful expenditure

Opening balance	563,019	556,098
Fruitless and wasteful expenditure - incurred	8,414	6,921
Less: Amounts not recoverable	(563,019)	-
	8,414	563,019

The office of the Accounting Officer has prepared a report of the instances, which relates to interest charged on late payment of accounts (Eskom, Telkom & Motor Vehicle licences), the report was considered by the Council.

48. Irregular expenditure

Opening balance	2,498,807	-
Add: Irregular Expenditure - current year	6,115,987	2,498,807
Less: Amounts not recoverable	(2,498,807)	-
	6,115,987	2,498,807

Details of irregular expenditure – current year

	Details	Award Amount	Amount paid this year
Ocean Dawn	Contract extension on month to month basis	2,328,870	2,328,87
G4S Security	Contract extension on annual basis	60,371	60,37
Cigicell	Contract extension on month to month basis	135,010	135,01
AON South Africa	Contract extension on annual basis	706,395	706,39
Altech Netstar	Contract extension on annual basis	110,937	110,93
Ekene Investments CC	SCM Regulations non-compliance	4,878,494	2,645,65
Zime-du trading enterprise	SCM Regulations non-compliance	420,914	128,74
Ah-Tak-Thi-Ki Trading 539 CC	SCM Regulations non-compliance	2,792,118	
		11,433,109	6,115,987

The above relates to the extension of contracts after expiry that was approved by the Accounting and must be condoned by the Council, the procurement processes for these contracts is underway as at the end of the reporting period. The other instances are for non-compliance with SCM Regulations where the Council must deal with those transactions.

49. Additional disclosure in terms of Municipal Finance Management Act

Contributions to organised local government

Amount paid - current year	813,306	561,126
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Nquthu Local Municipality

Annual Financial Statements for the year ended June 30, 2018

Notes to the Annual Financial Statements

Figures in Rand	2018	2017
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49. Additional disclosure in terms of Municipal Finance Management Act (continued)

Audit fees

Current year subscription / fee	1,230,739	1,086,328
Amount paid - current year	(1,230,739)	(1,086,328)
	-	-

PAYE and UIF

Current year subscription / fee	7,141,404	5,590,211
Amount paid - current year	(7,141,247)	(5,590,211)
	157	-

Pension and Medical Aid Deductions

Current year subscription / fee	8,533,609	7,512,462
Amount paid - current year	(8,533,609)	(7,512,462)
	-	-

VAT

VAT receivable	4,084,624	1,930,774
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All VAT returns have been submitted by the due date throughout the year, returns are submitted monthly and on payment basis. SARS paid the interest for late refunds when they made refunds where applicable. There are two refunds outstanding May R 654 122.26 June R 2 387 900.52.

Councillors' arrear consumer accounts

There was one Councilor who had arrear account outstanding for more than 90 days at June 30, 2018 who also had account outstanding for more than 90 days during a financial year.

June 30, 2018	Outstanding less than 90 days R	Outstanding more than 90 days R	Total R
Cllr. ET Nhlebela	-	14,138	14,138
Cllr. SD Masimula	755	-	755
Cllr. LS Hoffman	134	-	134
	889	14,138	15,027

During the year the following Councillors' had arrear accounts outstanding for more than 90 days.

Supply chain management regulations

Notes to the Annual Financial Statements

Figures in Rand	2018	2017
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50. Actual operating expenditure versus budgeted operating expenditure

Explanations for the variances on comparison of actual operating expenditure versus budgeted expenditure are stated below. Only variances of above 10% are provided with explanations.

51.1 Statement of financial performance**51.1.1 REVENUE**

Service charges - Consumption of electricity is based on demand by residents which fluctuates and losses as disclosed in the material electricity losses

Rental of facilities and equipment - Rental income is usage dependant which cannot be controlled

Government grants and subsidies - Additional grants received (MIG), increased in spending on grants.

Miscellaneous other revenue - Income is ad hoc and municipality has no control over

Interest received - investment - Investing of funds not required immediately to earn higher interest

5.1.2 EXPENDITURE

Depreciation - Major infrastructure projects completed earlier than expected

Employee related costs - Employees not making use of benefits like medical aid and housing

Repairs and maintenance - Repairs and planned maintenance are done as required, expenditure is based on those

Bulk purchases - Based on electricity consumption patterns by the consumers.

Contracted Services - Reduction of the outsourced activities

General Expenses - Cost containment strategies to reduce costs and unnecessary spending in line with priorities set like publicity, accommodation, printing and stationery etc.

51. Actual capital expenditure versus budgeted capital expenditure

The explanations for variances above 10% on the comparison of actual capital expenditure versus budgeted expenditure are provided below.

52. Deviation from supply chain management regulations

There were no deviations from the Municipal Supply Chain Management Regulations and Policy recorded during the reporting period.

53. Assets subject to restrictions

There are no assets that have been recognised, which have are subject to any restrictions.

Nquthu Local Municipality

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Notes to the Annual Financial Statements

Figures in Rand	2018	2017
54. Material Losses - Electricity		
kWh value		
Total Purchased(kWh)	20,556,545	20,180,313
Total Sold (kWh)	(9,621,268)	(10,737,358)
Own consumption (kWh)	(124,428)	(95,698)
Free basic electricity (kWh)	(638,450)	(635,950)
	10,172,399	8,711,307
Monetary value		
Average selling price per kWh	1.2890	1.1470
Electricity cost (R)	18,099,050	17,686,150
Electricity loss (R) (Based on kWh loss)	13,112,222	9,991,869

The municipality is licensed by the National Electricity Regulator of South Africa to distribute electricity within the proclaimed area of Nquthu Town.

The municipality has investigated the causes of the losses and the major contributing factors are illegal connections, tampering, lack of accounting for streetlight usage and technical/distribution losses due to ageing infrastructure.

The percentage of losses is 49.48% (2017:43.17%) in kWh values.

55. Indigent support

All Eskom customers qualify for Free Basic Electricity (FBE) which is 50kWh per month

Households amounting to 1 180 are subsidized for alternative energy per month on the solar panels - 1 713 households - projects for those areas without electricity as yet, installations to other households is proceeding.

Electricity customers serviced by our licence also get a 50kWh every month. The management has been tasked to develop a policy where only deserving households benefits in all these rather than the current blanket approach.

56. Awards to persons in service of state

Supplier name	Official	Employer	Amount paid in current year	Amount paid in current year
Somgish Trading	Celukwazi	KZN:	131,100	131,100
	Justice Gumbi	Education		
Nomadavathi (Pty) Ltd	Sizakele	KZN:	30,000	30,000
	Mkhize	Education		
Sphumelele Macebisa	Mfanukhona	KZN:	30,938	30,938
	Zwelihle	Education		
	Welcome			
	Mgaga			
	-	-	192,038	192,038

The were awards made to people who are in employ of the state, which were only identified through the audit where it was determined that the suppliers declared false information. The MBD 4 forms are used as a control measure for this. The introduction of Central Supplier Database (CSD) also improved the controls in place, however the CSD has given us information that is contrary to what Auditor-General is getting and this must be taken up with National Treasury as the custodians of CSD.

57. Budget differences

Material differences between budget and actual amounts

There were no material differences between the final budget and the actual amounts where reasons are provided in note 50.

Nquthu Local Municipality

Annual Financial Statements for the year ended June 30, 2018

Notes to the Annual Financial Statements

Figures in Rand	2018	2017
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57. Budget differences (continued)

Changes from the approved budget to the final budget

There were no changes from the approved budget to the final budget.